ALGERIA 1996
LUBRICANTS
EXPANSION 1996
NATURAL GAS 1996
HIBERNIA 1997
TERRA NOVA 2001

Petro-Canada is advancing on a clearly defined path to profitable growth – our key to creating superior shareholder value in the years ahead.

HIGHLIGHTS

	1995	1994	1993
FINANCIAL *(millions of dollars, unless otherwise indicated)*			
Earnings from operations *(in 1995, before organizational restructuring charge)*	241	219	157
Net earnings	196	262	160
Cash flow	705	701	631
Per common share *(dollars)*			
Earnings from operations *(in 1995, before organizational restructuring charge)*	0.98	0.89	0.64
Net earnings	0.79	1.06	0.65
Cash flow	2.86	2.84	2.56
Dividends paid	0.20	0.1475	0.13
Expenditures on property, plant and equipment and exploration	853	702	609
Debt	1 381	1 259	1 205
Debt to debt plus equity *(per cent)*	30.9	29.9	30.7
Debt to cash flow *(times)*	2.0	1.8	1.9
Operating return on capital employed *(in 1995, before organizational restructuring charge) (per cent)*	5.7	5.8	4.8
Return on capital employed *(per cent)*	4.9	6.7	4.8
Cash flow return on capital employed *(per cent)*	14.8	15.9	15.3
OPERATING			
Crude oil and field natural gas liquids production, net before royalties *(thousands of barrels per day)*	79.4	73.3	79.8
Natural gas production, net before royalties, excluding injectants *(millions of cubic feet per day)*	546	540	562
Ethane and natural gas liquids production from straddle plants *(thousands of barrels per day)*	37.5	36.8	40.8
Proved oil and field natural gas liquids reserves, net before royalties *(millions of barrels)*	423	411	389
Proved natural gas reserves, net before royalties *(trillions of cubic feet)*	2.1	2.1	2.3
Refined petroleum product sales *(thousands of cubic metres per day)*	41.6	41.5	41.3
Average refinery utilization *(per cent)*	93	93	79

CONTENTS

Each of Petro-Canada's businesses plays a unique role in building shareholder value. The Company actively manages its portfolio and the business strategies of its units in order to optimize the overall performance and growth profile of Petro-Canada, maintain financial strength and flexibility, and ensure efficient use of capital.

	BUSINESS DESCRIPTION	STRATEGY IN 1995	KEY STATISTICS	1995 HIGHLIGHTS	PLANS FOR 1996
NATURAL GAS	• Explores for, produces and markets natural gas • Ranks 6th in Canadian gas sales – daily production of 546 million cubic feet is 4% of Canada's total	• Increase investment in exploration and development, with greater emphasis on reserves replacement • Continue bringing proved undeveloped reserves on stream and speed development to generate early cash flow • Hold per-unit operating costs to 1994 level and gain new efficiencies	 NATURAL GAS PRODUCTION *(millions of cubic feet per day)*	• Added 203 billion cubic feet of proved reserves – 154 bcf from discoveries, 29 bcf from revisions and 20 bcf from net purchases • Increased production capability by bringing on stream 145 bcf of previously undeveloped reserves	• Continue investing in value-adding reserves replacement • Investigate new opportunities for profitable growth in the natural gas business • Contain costs per unit and gain new operating efficiencies
WESTERN CANADA OIL	• Explores for, produces and markets crude oil • Ranks 6th in Canadian liquids production with 79 400 barrels daily, about 3% of Canada's total • Holds 12% interest in Syncrude oil sands plant	• Maximize cash flow with continued aggressive development • Continue focused exploration • Rejuvenate assets in core areas by seizing market opportunities for property acquisitions and divestments • Gain new operating efficiencies	 CRUDE OIL AND FIELD LIQUIDS PRODUCTION *(thousands of barrels per day)*	• 10% increase in conventional crude oil production • Record production from Syncrude, with lower operating costs • Added 12 million barrels to reserves of conventional oil and field natural gas liquids – 9 million from discoveries, extensions and improved recovery and 3 million from net purchases	• Maximize cash flow with continued aggressive development • Take advantage of market opportunities to rejuvenate assets in core areas • Continue to contain operating costs • Maintain focused exploration
FRONTIER CANADA AND INTERNATIONAL	• Develops Canadian offshore petroleum and selected international opportunities • Owns 30% of the oil that has been discovered off Canada's East Coast • 25% participant in Hibernia development • 49% interest in Terra Nova development • Operates development and exploration project in Algeria	• Continue with construction and assembly of Hibernia oil production platform • Build production facilities for Algeria oil field • Progress towards development of Terra Nova	MAJOR PROJECT ON-STREAM TARGETS • *Algeria* *1996* • *Hibernia* *1997* • *Terra Nova* *2001*	• Hibernia topsides modules transported safely to assembly pier at Bull Arm, Newfoundland • Construction of gravity base structure continued • Hibernia proceeding within budget and schedule • Development drilling in Algeria • Decision to proceed with Terra Nova development plan application	• Begin Algeria oil production in first quarter • Complete negotiations on Terra Nova fiscal terms • Submit Development Plan Application for Terra Nova • Complete Hibernia construction in preparation for 1997 joining of the base and topsides, followed by tow-out to the field
NATURAL GAS LIQUIDS	• Extracts natural gas liquids, including ethane, propane and butane, from a gas trunk line at its straddle plant at Empress, Alberta • Markets natural gas liquids in Canada and the United States • Sells propane under the ICG brand	• Strengthen ICG Propane retail efficiency and marketing focus • Selectively grow NGL trading business • Increase Empress plant production volumes	 STRADDLE PLANT NGL PRODUCTION *(thousands of barrels per day)*	• Increased production at Empress plant • Reduced costs by 6% in ICG Propane • Launched ICG Propane business transformation • Increased U.S. trading activity	• Continuously improve cost structure and plant reliability • Implement retail transformation to streamline ICG Propane retail operations
REFINING	• Converts crude oil into refined products, including gasoline, diesel, jet fuel and asphalt • Provides 18% of Canada's refining capacity for domestic markets	• Maintain reliability and high capacity utilization • Implement re-engineering plans	 AVERAGE REFINERY UTILIZATION *(per cent)*	• Maintained 93% utilization despite major maintenance shutdowns at all plants • Gained significant benefits from re-engineering of refining and supply processes	• Maintain high reliability and capacity utilization • Continue to optimize feedstock mix and drive towards a low-cost competitive position
MARKETING	• Markets refined products and services through a nation-wide network of wholesale and retail outlets • Canada's second-largest marketer, with a 17% share of the refined products market	• Further increase throughput per site • Re-engineer business processes and information systems	 AVERAGE THROUGHPUT PER RETAIL SITE *(millions of litres)*	• Again raised average retail throughput by more than 10%, to 2.8 million litres per site • Launched Petro-Points customer loyalty program, with strong initial response • After successful pilot testing, began rolling out modern, low-cost retail outlet design	• Implement retail re-engineering and new integrated business information system • Further increase average retail throughput • Build on strong brand awareness to increase productivity of marketing network • Continue to build non-petroleum revenue
LUBRICANTS	• Manufactures and markets lubricants • Produces exceptionally pure base oils • A global supplier of high-quality specialty lubricants	• Begin construction of plant expansion to double capacity and expand position in markets for high-margin products	 LUBRICANT SALES *(millions of litres)*	• Construction of plant expansion began in September 1995	• Bring plant expansion on stream by the end of 1996 • Secure markets for expanded production

Strong performance today.
Major investments on stream tomorrow.
Steady growth into the future.

Petro-Canada is the largest Canadian-owned oil and gas company and a leader in the Canadian petroleum industry. An integrated company, it has a balanced portfolio of businesses spanning both the upstream and downstream sectors of the industry.

In the upstream, Petro-Canada explores for, develops, produces and markets crude oil, natural gas and natural gas liquids, including propane. In the downstream, it refines crude oil into a full range of petroleum products, including lubricants, and distributes and markets those products.

Petro-Canada shares are widely distributed. About 80 per cent of the outstanding shares are held by institutional and individual investors. No investor may own more than 10 per cent of the public float. About 20 per cent of the Company's shares are held as an investment by the Government of Canada. The common shares and instalment receipts of Petro-Canada trade on Canadian stock exchanges under the symbols PCA and PCA.IR, and on the New York Stock Exchange under the symbols PCZ and PCZ.PP.

At the end of 1995, Petro-Canada had a market capitalization of $3.9 billion. It ranked 24th among the Toronto Stock Exchange 300 companies, representing 0.97 per cent of the total market value of the index.

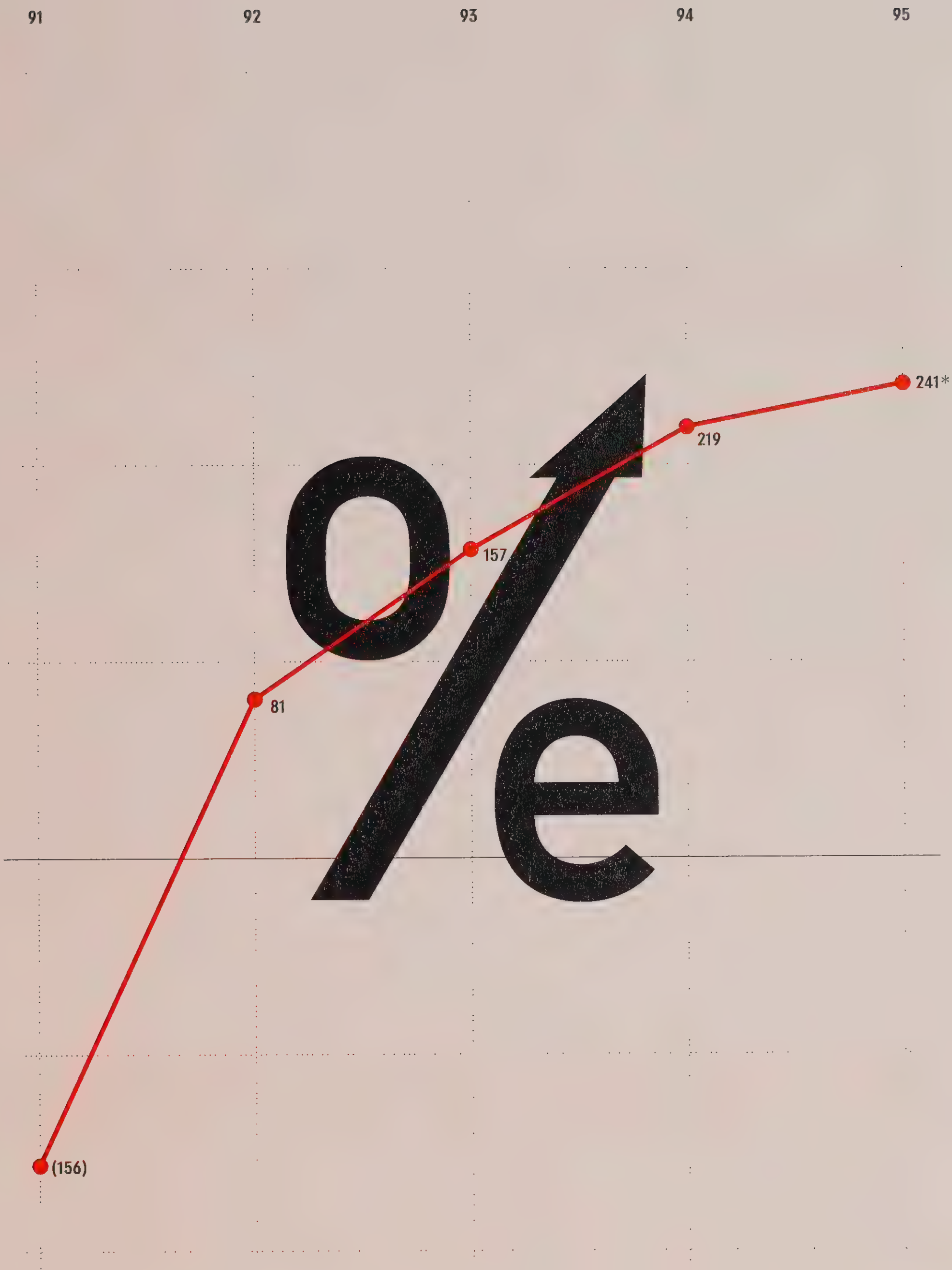
The sale of most of the Government's interest has freed the market to recognize the growing value of Petro-Canada's shares.

Petro-Canada Share Price Compared with Market Indicators

Changes in monthly closing values for Petro-Canada common shares,
the Toronto Stock Exchange 300 Index, and the TSE Integrated Oils Sub-index.
● *Petro-Canada common shares (PCA)* ○ *Toronto Stock Exchange 300 Index* ○ *TSE Integrated Oils Sub-index*
(percentage change from December 30, 1994)

In September, the Government of Canada sold shares amounting to 50 per cent of Petro-Canada's outstanding common stock, reducing the Government's interest to 20 per cent. Growing investor confidence has brought significant appreciation in market value, which rose 38 per cent or $1 billion in 1995.

We have raised earnings
from operations to record levels
with steady performance gains
in our business units and
a relentless drive for
operational excellence.



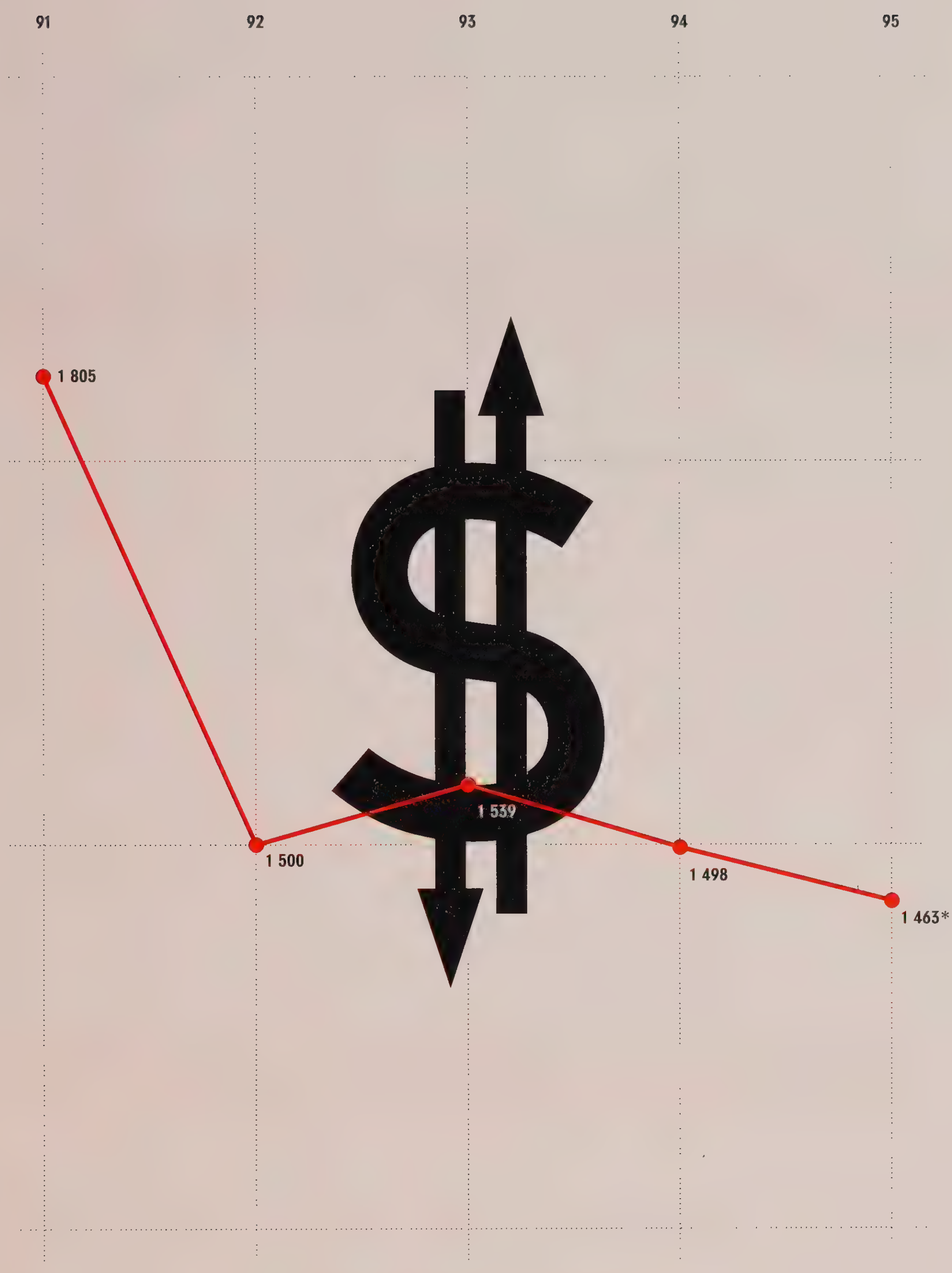
Earnings from Operations

(millions of dollars)

**before a $52 million after-tax charge for organizational restructuring in 1995*

Even as it shifts its focus to growth, Petro-Canada continues to demand and achieve stronger performance from its existing asset base.

Continuing rigorous cost management enables Petro-Canada to prosper and grow even in a weak business environment.



Ongoing Operating and Overhead Expenses

(millions of dollars)

**before an organizational restructuring charge of $87 million in 1995*

Asset rationalization, restructuring and vigilant ongoing cost management have enabled Petro-Canada to hold annual costs more than $300 million below prior levels, while absorbing inflation.

On behalf of the Board of Directors, management and all the staff at Petro-Canada, we are pleased to report that in 1995 your Company achieved its best results since privatization. We have established a four-year record of improving performance by consistently implementing strategies to add value to your investment in Petro-Canada.

Our Downstream businesses delivered sharply improved results, flowing from sustained efforts to reduce costs, improve reliability and utilization at our refineries, and heighten the efficiency of our marketing network. Our Upstream sector achieved strong results despite persistent low prices for natural gas.

Before a charge related to restructuring, earnings from operations were $241 million, an increase of $22 million from 1994. Net earnings were $196 million. Cash flow rose slightly to $705 million, from $701 million a year earlier.

In May, we announced a major restructuring of our organization to improve strategic effectiveness, gain operational efficiencies and boost profitability. As a result, we incurred a charge to earnings of $52 million after tax. We expect substantial earnings improvements by the end of 1997, from both cost reductions and revenue enhancements, as a result of the restructuring and the many re-engineering efforts now under way across Petro-Canada.

Our success in 1995 was directly due to the concerted effort of each and every Petro-Canada employee throughout the organization. By and large, it was achieved without the benefit of any improvements in the business environment. Most of our gains can be traced to continuous improvement in all the aspects of the business over which we had some control.

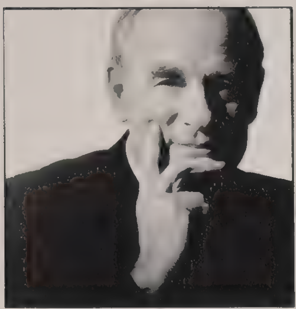
PETRO-CANADA IS DELIVERING GROWTH

Through re-engineering, aggressive cost management and operational improvements, we will continue to get better performance from our businesses. But the key to creating superior long-term shareholder value is growth.

Unlike many companies, Petro-Canada has a clearly defined path to profitable growth. We have an unrivalled inventory of opportunities already in our portfolio. We are investing strongly in the best of those opportunities, and we will soon begin to reap the benefits of our growth strategy.

Internationally, we have focused on a single, high-potential opportunity in Algeria. Our first well, in 1994, proved commercial. In 1996, about the time shareholders read this report, the first oil production will flow from our Tamadanet oil field.

Late this year, we will bring on stream an expansion of our lubricants plant, doubling our capacity



Jim Stanford
President and Chief Executive Officer

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and positioning us as a powerful, low-cost competitor in growing markets for high-value-added products. Our natural gas growth strategy is delivering good reserve additions, though production was held back in 1995 by deliverability constraints and low prices.

Probably our greatest prospects lie off Canada's East Coast, where we own 30 per cent of the 1.5 billion barrels of light oil already discovered. We share in the first major development, Hibernia, which is making excellent progress and is now less than two years from production. We are preparing a development plan for Terra Nova, a Petro-Canada operated oil project near Hibernia. And these are just the start. We are actively seeking strategic alliances to capture greater value in advancing the development of Terra Nova and our other offshore oil fields.

INVESTING FROM A POSITION OF STRENGTH

Our strong performance in recent years has given us the financial position to support major investments in growth. We invested $853 million in 1995, and will maintain our commitment to growth in 1996 with planned capital expenditures of $870 million. We will continue prudent balance sheet management and will live within our means in 1996, financing our investments from cash flow and proceeds from the sale of receivables early in the year.

GOVERNMENT SALE WELCOME

In September, the Government of Canada sold the majority of the shares it owned in Petro-Canada, reducing its interest to 20 per cent. The sale attracted strong market interest and was quickly oversubscribed. At year end, Petro-Canada had the largest public float of any Canadian integrated oil company, and shareholders had seen significant appreciation in the value of their shares. With this secondary issue, our privatization is essentially complete. The Government now nominates only one member for election to our Board, and holds its residual interest as an investment.

FOCUS ON SHAREHOLDER VALUE

Our pledge to our shareholders is to maintain our focus on creating value through steady performance gains and measured, profitable growth. The next year will not be easy, as we expect natural gas prices to remain relatively low and do not foresee much growth in the market for petroleum products.

Jim Stanford *(left)*
President and Chief Executive Officer
Jim Black *(right)*
Chairman of the Board

We will not see substantial return from our growth initiatives until 1997 and beyond. But we have driven our costs down and increased our resilience to adverse business conditions, so we believe we can continue to deliver strong performance in 1996.

PATH TO GROWTH CLEAR

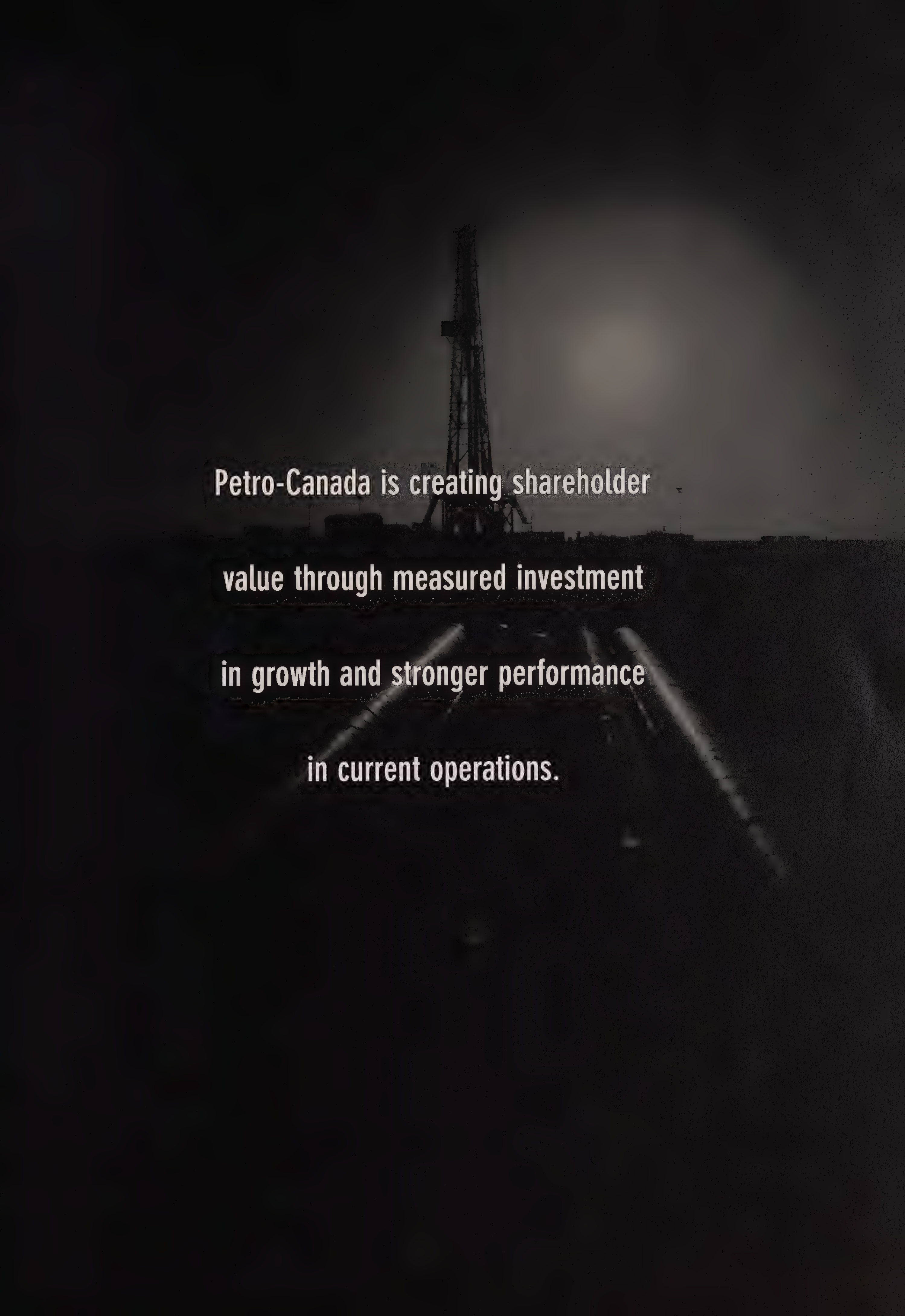
We strongly believe the confidence of our shareholders and employees is well placed. This company is not opportunity constrained. Petro-Canada has a clearly defined path to strong and sustainable growth. Its management team has established a solid record of performance improvement. It has brought your Company to a position of strength in which it can prosper even when the business environment is unfavourable. We will continuously seek and seize opportunities – both within and beyond our present asset base – to build value for our shareholders.

James M. Stanford
President and Chief Executive Officer

James T. Black
Chairman of the Board

THANKS AND FAREWELL *Our Chairman of the Board, Jim Black, will step down following our 1996 Annual Meeting, having reached the mandatory retirement age. Jim brought a special perspective, having served as a Director in the early 1980s and again since 1994. The depth of his experience and wisdom was of immense value to the Corporation, to the Board, and to me personally. We very much appreciate his contribution.*

James M. Stanford
President and Chief Executive Officer


Petro-Canada is creating shareholder
value through measured investment
in growth and stronger performance
in current operations.

Norm McIntyre
Executive Vice-President

UPSTREAM STRATEGY

Petro-Canada is pursuing a strategy of steady, measured growth to create shareholder value. Several of the most attractive growth opportunities in our portfolio are in the Upstream sector.

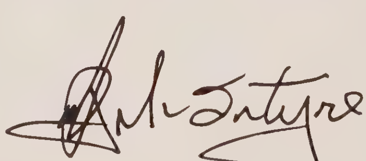
Our East Coast offshore discoveries offer our best prospects for major additions to light oil reserves and production. We expect production from Hibernia by the end of 1997, and we are now preparing to move forward with our second offshore oil project, Terra Nova. In the shorter term, our oil development in Algeria will give a sizeable boost to our light oil production in 1996, with considerable upside potential.

With strong long-term market potential and good opportunities for reserve additions, natural gas is an important growth area for us in Western Canada. We are achieving success in adding reserves and production capability. Given recent low prices, we will continue to evaluate and fine-tune our plans, including the timing and pace of investment, to ensure we respond flexibly to the business environment and maximize value creation as we implement our strategy.

The Western Canada oil business unit raised production volumes and is generating strong, dependable cash flow. With modest investment and a focus on ongoing cost containment, we intend to continue to provide a strong contribution from this business.

In our natural gas liquids business, we are maximizing cash flow through continuous improvement in reliability and cost structure.

I am particularly proud that our Upstream sector was able to maintain its earnings contribution to the Company's success in 1995 despite low gas prices. Low prices may continue, but I expect solid performance from the Upstream again in 1996.



Norman F. McIntyre
Executive Vice-President

UPSTREAM SECTOR – KEY RESULTS	1995	1994	1993
FINANCIAL *(millions of dollars)*			
Earnings from operations	153	153	114
Gains on asset sales	6	19	1
Gain on sale of TroCana Resources	—	21	—
Net earnings	159	193	115
Cash flow	477	448	376
OPERATING[1]			
Crude oil and field natural gas liquids production, net before royalties *(thousands of barrels per day)*	79.4	73.3	79.8
Natural gas production, net before royalties, excluding injectants *(millions of cubic feet per day)*	546	540	562
Ethane and natural gas liquids production from straddle plants *(thousands of barrels per day)*	37.5	36.8	40.8

[1] *Volumes for 1993 include production from TroCana Resources, which averaged 6 700 barrels of oil and liquids and 36 million cubic feet of natural gas per day. TroCana was sold at the beginning of 1994.*

Jim Pantelidis
Executive Vice-President

DOWNSTREAM STRATEGY

Growth and performance improvement each have major roles in meeting Petro-Canada's commitment to creating superior shareholder value.

Our Downstream business teams have had remarkable success in generating higher earnings in 1995, with little help from a weak business environment. The Downstream strategy is to be a low-cost producer of refined products and a low-cost provider of products and services. The 1995 results demonstrate early success from that strategy.

The three regional business units reorganized during 1995 to enable a clear focus on key value drivers in the "rack back" (refining and supply) and "rack forward" (marketing) segments of their operations. The units are now better able to identify and pursue performance improvements and retail growth opportunities, while continuing to capture benefits with their integrated regional structure. They are striving for operational excellence by focusing on expense reduction, gains in reliability and efficiency, and the redesign of key business processes.

We also began construction on an important growth initiative in our lubricants business. Petro-Canada's competitive advantage in lubricants enables us to pursue a major, profitable expansion into high-value markets – a rare opportunity in the relatively mature downstream sector.

Petro-Canada has been a leader in industry moves to rationalize refining and marketing networks, bring demand and supply into greater balance and raise efficiency. We will maintain and enhance our competitive position as we aim for double-digit returns from the Downstream in the years ahead.

DOWNSTREAM SECTOR - KEY RESULTS	1995	1994	1993
FINANCIAL *(millions of dollars)*			
Earnings from operations	160	136	112
Gains on asset sales	1	2	2
Net earnings	161	138	114
Cash flow	305	295	291
OPERATING			
Refined petroleum product sales *(thousands of cubic metres per day)*	41.6	41.5	41.3
Refinery crude capacity at year end *(thousands of cubic metres per day)*	45.4	45.1	45.1
Average refinery utilization *(per cent)*	93	93	79

James Pantelidis
Executive Vice-President

Petro-Canada has a clearly defined path to growth. It invested $853 million in 1995, largely targeted to four primary growth areas. Three of these initiatives will bring new production on stream in 1996.

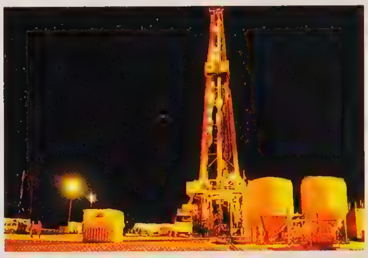
ALGERIAN OIL NEAR PRODUCTION

First production from Petro-Canada's Tamadanet oil field, in the Tinrhert block 1 000 kilometres southeast of Algiers, is expected late in the first quarter of 1996. The Company has moved rapidly to follow up on its successful 1994 well. Total field production is expected to average 15 000 barrels per day when on stream. SONATRACH, the Algerian national oil company, has a 30 per cent interest in the development.

Petro-Canada has booked 15.4 million barrels of proved reserves at Tamadanet, and will continue to add proved reserves as the field is developed. Exploration drilling will continue on the Tinrhert block in 1996.

These are just the first opportunities for Petro-Canada in Algeria. The Company's rights in the Tinrhert block cover two million acres in an active producing area, where a highly developed pipeline infrastructure facilitates quick development of discoveries. Petro-Canada has the right to develop certain previous discoveries as well as to explore for new prospects.

Development well at Tamadanet oil field, Algeria, January 1996.



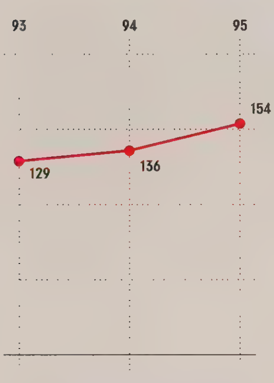
Preparing for production at Algeria oil field.

RESERVES ADDED IN NATURAL GAS

Petro-Canada sees natural gas as its primary growth opportunity in Western Canada. Priority is given to rapidly bringing existing discoveries onto production, then to exploration, working outward from existing infrastructure, to replace and increase reserves.

Development work in 1995 brought on stream 145 billion cubic feet of previously undeveloped reserves. Discoveries, extensions, revisions and net purchases added 203 billion cubic feet of proved reserves, while 1995 production was 199 billion cubic feet.

The natural gas growth strategy has brought substantial reserve additions.



GAS DISCOVERIES GROWING

Reserve additions from discoveries and extensions
(billions of cubic feet, net before royalties)

Advanced technology, including horizontal re-entry and three-dimensional seismic, helped to prove new reserves of 10 billion cubic feet of gas and 1.8 million barrels of liquids at Gold Creek, Alberta, and 24 billion cubic feet of gas at Yoyo, Clarke Lake and Kotcho in northeastern British Columbia.

Gas production rose slightly but was lower than planned, partly due to restricted pipeline capacity in British Columbia, which limited the quantity of gas Petro-Canada could deliver. A plant being built to process Petro-Canada gas in the Jedney area of northeast British Columbia will help to alleviate this situation by 1997. The Company also shut in some lower-margin wells for parts of the year in view of low prices.

Prices for natural gas were persistently low in 1995, but Petro-Canada continues to believe the natural gas business offers opportunities for profitable growth for top performers over the medium to long term. In view of the soft short-term gas price outlook, Petro-Canada will fine-tune its strategy and target opportunities which create value even with low prices, such as investment in areas where it has unused capacity at existing processing facilities, while continuing to drive towards first-quartile performance.

Over the past two years, Petro-Canada has used its natural gas marketing capabilities to link its sales contracts more effectively with production capability. More than half its sales are now directly to end users or local distribution companies. Only 35 per cent of volumes were sold to intermediaries in 1995, while 65 per cent were direct sales to end users, local distribution companies and Petro-Canada plants and refineries.

LUBRICANTS EXPANSION WILL DOUBLE CAPACITY

The Company plans to have the expansion of its Lubricants Centre in Mississauga, Ontario, on stream in the fourth quarter of 1996. The $135 million project will double production capacity and make Petro-Canada a low-cost global competitor in white oils and the expanding market for high-viscosity-index oils.

Reactor being lifted into place in lubricants plant expansion, February 1996.

A scheduled maintenance shutdown provided an opportunity to prepare tie-ins so the new unit can be connected to the existing plant without a further shutdown. Basestock production was down four per cent from 1994 as a result of the shutdown, while sales were down two per cent.

EAST COAST KEY FOR FUTURE LIGHT OIL Canada's East Coast offshore will be the primary source of new reserves and oil production for the Company in the medium and long term. Petro-Canada owns about 30 per cent of the oil discovered to date in more than a dozen significant Grand Banks properties. Independent estimates indicate Petro-Canada's share of recoverable reserves is more than 500 million barrels. Two fields, Hibernia and Terra Nova, are now on their way to production.

HIBERNIA The Hibernia oil field off Newfoundland will be producing oil in less than two years. The field is expected to contribute an average of 34 000 barrels of light oil a day to Petro-Canada at peak production and to more than double the Company's light oil reserves. This production rate is about 10 per cent higher than previous projections, reflecting Petro-Canada's current estimate of the efficiency of producing operations.

Hibernia has attractive economics based on the Company's expectations of future business conditions.* Petro-Canada estimates its forward-looking internal rate of return, as of January 1995, to be approximately 13 per cent, with payout in 2003, and recovery of all its costs at average crude oil prices of U.S. $10 in constant 1995 dollars.

At year end, construction of facilities was 85 per cent complete and within the budget and schedule established in 1994. The five topsides modules fabricated in Newfoundland, South Korea and Italy were completed in 1995 and transported to the assembly pier at Bull Arm. Hook-up and commissioning of equipment will continue through 1996.

Roof construction on the Hibernia gravity base structure, January 1996.

* *Principal assumptions in this estimate:*
- *landed price averaging around U.S. $16 per barrel in constant 1995 dollars*
- *average inflation of about 3 per cent per annum*
- *exchange rate ($U.S. / $Cdn.) between $0.75 and $0.80.*

Estimated recoverable field reserves of 615 million barrels and a peak production rate of 135 000 barrels per day were used to generate the economic results indicated.

Taking shape: Hibernia topsides modules on assembly pier, January 1996.

Work on the gravity base structure is more than three-quarters complete. The riser shafts, walls and roof will be completed in 1996. The topsides and base will be joined in the spring of 1997, then towed to the Hibernia location. The first oil is expected late in 1997.

Late in 1995, Petro-Canada reached agreement on a tanker charter to transport to market its share of the production from Hibernia. The tanker will be the most sophisticated of its type in the world, double-hulled and ice-strengthened for maximum safety and incorporating proven, state-of-the-art technology for offshore loading.

TERRA NOVA Petro-Canada and the other project participants expect to file a development plan application for the Terra Nova oil field, 35 kilometres southeast of Hibernia, during the spring of 1996, assuming the satisfactory conclusion of negotiations on fiscal terms. Following a regulatory review process expected to last 12 months, Petro-Canada hopes to proceed with development in 1997. The field could be on stream within four years of that decision, producing oil for 15 to 20 years. Petro-Canada is pursuing a new contracting strategy and other options which could shorten the time to first oil.

The Canada-Newfoundland Offshore Petroleum Board estimates the Terra Nova oil field contains about 400 million barrels of recoverable, light, sweet oil. Petro-Canada is the operator, with a 49 per cent cost-sharing interest, subject to minor adjustment when the field is unitized. Petro-Canada will receive nearly half the estimated average peak production of 100 000 barrels per day.

Petro-Canada proposes to develop the field using a floating production system, which could be built quickly and economically – for less than $2 billion. The field is economic on a commercial basis, given reasonable fiscal terms. The owners are not seeking any government assistance.

The Company's share of Hibernia and Terra Nova production will more than exceed its present Western Canada oil and liquids production, including Syncrude.

While it invests in new growth opportunities, Petro-Canada is also determined to achieve operational excellence in its existing businesses so as to deliver consistently superior financial performance.

DRIVE FOR OPERATIONAL EXCELLENCE CONTINUES

In May, Petro-Canada announced a restructuring of its organization, to be completed by 1997, to improve strategic effectiveness and reduce costs. Under a flatter management structure, business units have greater authority within the decision-making process, enabling senior executives to focus on strategy development and financial management, with less involvement in day-to-day operational activity. Support activities were consolidated into service units so the strategic business units can focus on creating value and delivering on their commitments. Non-core activities which can be provided cost-effectively by external suppliers are being outsourced.

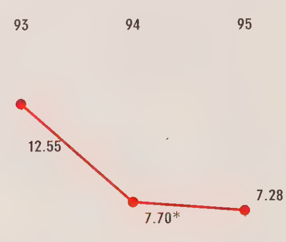
Restructuring will help Petro-Canada reach operational excellence – optimizing its competitive position by achieving the lowest costs consistent with its business strategy. Having identified the strategies that will bring success in each of its businesses, the Company is now redesigning key processes, focusing on primary value drivers, to achieve sustainable competitive advantage.

Implementing redesigned refining and supply processes brought substantial benefits in 1995. The Company expects gains in 1996 from re-engineering of exploration, development and joint venture operations, retail re-engineering, the redesign of people processes and supply chain management, and the launch of an integrated downstream business information system to replace a variety of older, separate systems.

Re-engineering will reduce expenses and working capital while improving capital efficiency.

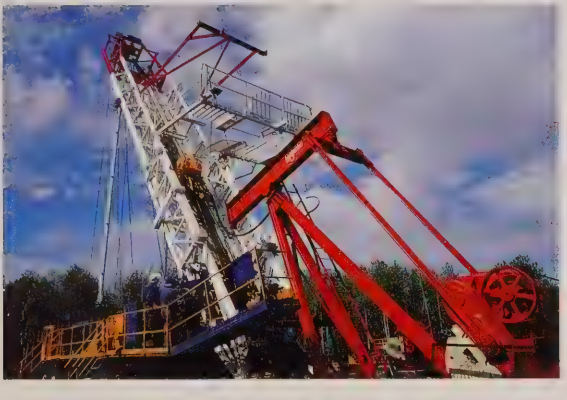
DRILLING SUCCESS CONTINUES

Petro-Canada, again one of the ten most active drillers in Western Canada, participated in 301 wells in 1995. Drilling had a 90 per cent success rate, yielding 161 gross (98 net) gas and 111 gross (68 net) oil wells. With greater focus following asset rationalization, the Company trimmed Western Canada finding and development costs to $7.28 per barrel of oil equivalent.



DRIVING DOWN FINDING AND DEVELOPMENT COSTS

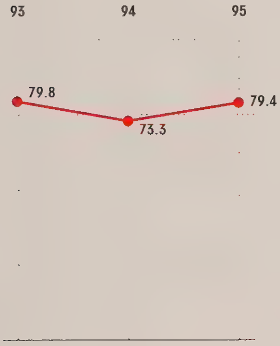
Conventional Western Canada oil and gas finding and development costs
(dollars per barrel of oil equivalent, where 1 barrel of oil = 10 000 cubic feet of natural gas)
**1994 data excludes Golden Lake revision*



Infill drilling and the application of waterflood technology on acquired lands have sharply boosted oil production at Valhalla, Alberta.

OIL ASSETS GENERATE CASH

Petro-Canada has a solid base of conventional oil production in Western Canada. It aims to maximize short- and medium-term cash generation from these assets, striving for low-cost operations and rejuvenating its asset base through property acquisitions and divestitures.



RISING OIL PRODUCTION

Total crude oil and field natural gas liquids production, including Syncrude
(thousands of barrels per day)
1993 volumes include non-core production from TroCana Resources, which was divested as of January 1, 1994

Through an aggressive exploitation strategy, conventional oil production rose 10 per cent to 44 500 barrels per day in 1995.

Petro-Canada seeks to divest mature fields where it sees limited prospects for further development, replacing them with assets having greater potential. During 1995, the Company sold a heavy oil field at Salt Lake and acquired interests at Crystal, near Pembina, and at Neutral Hills, near Bellshill. Infill drilling and field optimization have raised average net daily light oil production at Neutral Hills to 2 940 barrels in December 1995, up from 1 545 barrels when the interests were purchased.

PRODUCTION GROWS AT VALHALLA

The Valhalla oil field is an example of successful value creation through selective acquisitions in core areas. Aggressive waterflood development of additional interests acquired since 1992 has made Valhalla Petro-Canada's largest and most profitable oil field.

A 34-well drilling program and a waterflood extension in 1995 raised Petro-Canada's share of production to 12 100 barrels per day during the fourth quarter from an average of 7 530 barrels per day in 1994. Nearly three million barrels of additional proved developed reserves were booked. Finding and development costs for the new reserves were $3.87 per barrel, while operating costs for the new wells are under $3.00 per barrel. The field has considerable further potential, with 21 more wells planned for early 1996.

Re-engineering and reliability improvements have paid off at refineries.

RECORD PRODUCTION AT SYNCRUDE

The Syncrude oil sands plant, in which Petro-Canada has a 12 per cent interest, achieved record production of synthetic crude oil in 1995, while continuing to reduce per-unit operating costs. Petro-Canada's share of production averaged 24 300 barrels per day, up from 22 900 barrels per day in 1994.

Syncrude is continuously improving the application of technology to increase production, reduce costs and pursue growth opportunities. Syncrude's cash costs of $13.69 per barrel were down nine per cent from $14.98 in 1994. By 2000, Syncrude aims to have costs down to about $12.25 per barrel (in 1995 dollars). During 1996, Syncrude will debottleneck its upgrading plant to further increase production, continue developing a northward extension of the mine, and begin preliminary work on development of a new mining area.

INCREASED CASH FROM NATURAL GAS LIQUIDS

The natural gas liquids business contributes cash flow and provides a natural hedge against changes in gas prices. The liquids extraction and wholesale marketing operation is continuously improving the efficiency and reliability of production to maximize cash flow. Cash generation was up significantly due to higher product prices, lower replacement gas prices, and an 11 per cent increase in production at the Empress straddle plant. Trading in the United States grew in 1995, the second year of operations in Tulsa, Oklahoma.

DOWNSTREAM OPERATING EARNINGS AFTER TAX *(millions of dollars)*	Q1	Q2	Q3	Q4	TOTAL 1995	TOTAL 1994
Rack Back *(Refining and Supply)*	15	20	38	26	99	91
Rack Forward *(Marketing)*	7	15	24	15	61	45
Total Downstream	22	35	62	41	160	136

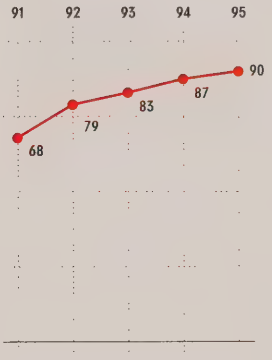
Record Downstream operating earnings in 1995 were mainly due to a continued strong contribution from Rack Back segment. Substantial improvement in Rack Forward earnings resulted from successful implementation of marketing strategies.

One of the gas liquids, propane, is marketed principally under the ICG brand. Cash generation from this segment was slightly lower this year, principally due to less favourable weather and lower auto propane sales. ICG Propane is redirecting its sales efforts towards higher-margin commercial and industrial markets, particularly in Eastern Canada where propane is very competitive with electricity. ICG Propane is restructuring to strengthen its marketing capability and improve on a 1995 cost reduction of six per cent.

REFINING COSTS TRIMMED

Petro-Canada's refineries have continued to optimize feedstock costs and reduce operating expenses while maintaining high reliability and utilization rates.

The refineries are optimizing the mix of heavy and light crudes and other feedstocks, capitalizing on the flexibility the Company has developed in its refineries. Staff have eliminated processing constraints, introduced new catalysts and processing technologies, and found better ways to upgrade the lower-quality components of crude oil into higher-value products. Debottlenecking at the Montreal refinery further increased its capacity to process lower-cost heavy crude.



REFINERIES RUNNING RELIABLY

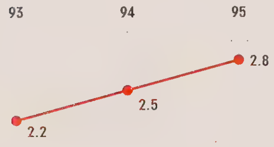
Refinery reliability index, measuring actual operational efficiency as a function of optimum planned capability

Utilization held steady at 93 per cent despite major planned maintenance shutdowns in 1995 at all facilities. New turnaround planning processes resulted in well-managed shutdowns, completed on time and within budget. Reliability rose for the fifth year in a row as a result of redesigned preventative maintenance processes.

New-look retail outlets with convenience stores draw customers with an attractive offering.

MARKETING EFFICIENCY GAINS CONTINUE

Gasoline volumes per retail site grew by more than 10 per cent for the third year in a row. Average annual throughput per site rose to 2.8 million litres from 2.5 million a year earlier. Higher throughputs and a relentless focus on cost control reduced pumping costs.



CONTINUED GAINS IN RETAIL EFFICIENCY

Average annual throughput per retail site *(millions of litres)*

While rationalization was completed in 1994, the Company continues to high-grade its network. It is building new outlets with an attractive, low-cost design in high-volume locations. Network improvements are supported with a strong advertising campaign building on Petro-Canada's image as "Canada's Gas Station."

Profitability continues to rise in wholesale, driven by successful customer-focused service initiatives and revitalization of the Petro-Pass cardlock network, which saw an eight per cent rise in sales.

BRAND LOYALTY PROGRAM LAUNCHED

In a relatively flat market for gasoline, increasing brand loyalty and repeat business is a key to greater profitability. Following extensive market research and pilot testing, in October Petro-Canada launched its Petro-Points program, offering quick rewards of automotive products in exchange for points earned with each purchase. Unlike competing points programs, Petro-Points builds Petro-Canada's identity, as it is linked with the Company rather than a third party. It also builds awareness and sales of non-fuel products at retail outlets. Customer response to Petro-Points has exceeded expectations.

Petro-Points builds repeat business with instant rewards of automotive products.

Deploying boom during spill response training off Vancouver Island.

CONVENIENCE STORES TO BUILD NON-PETROLEUM REVENUE

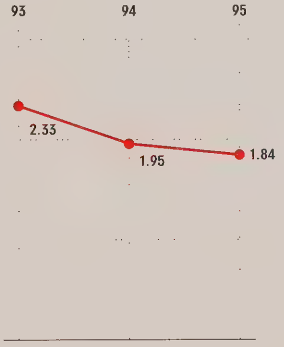
With margins on fuel products under pressure, the Company is actively increasing earnings by offering its guests an expanded range of convenience goods and services. Larger convenience stores are a feature of many new sites, and the Company is pilot testing concepts for new offerings. Retail non-petroleum contribution rose 15 per cent in 1995.

PERSONAL CREDIT CARD OUTSOURCED

In January 1996, Petro-Canada sold its personal credit card receivables for about $110 million. The sale reduces Petro-Canada's working capital requirements, while continuing to build brand identity, as the card is still identified as a Petro-Canada credit card.

LOSS MANAGEMENT FOCUSES ON PREVENTING ACCIDENTS

One early and welcome result of efforts to reduce losses is improved employee safety. The rate of injuries requiring medical treatment or time away from work has declined to 1.84 incidents per 200 000 work hours (roughly 100 person-years), from 2.33 in 1993.

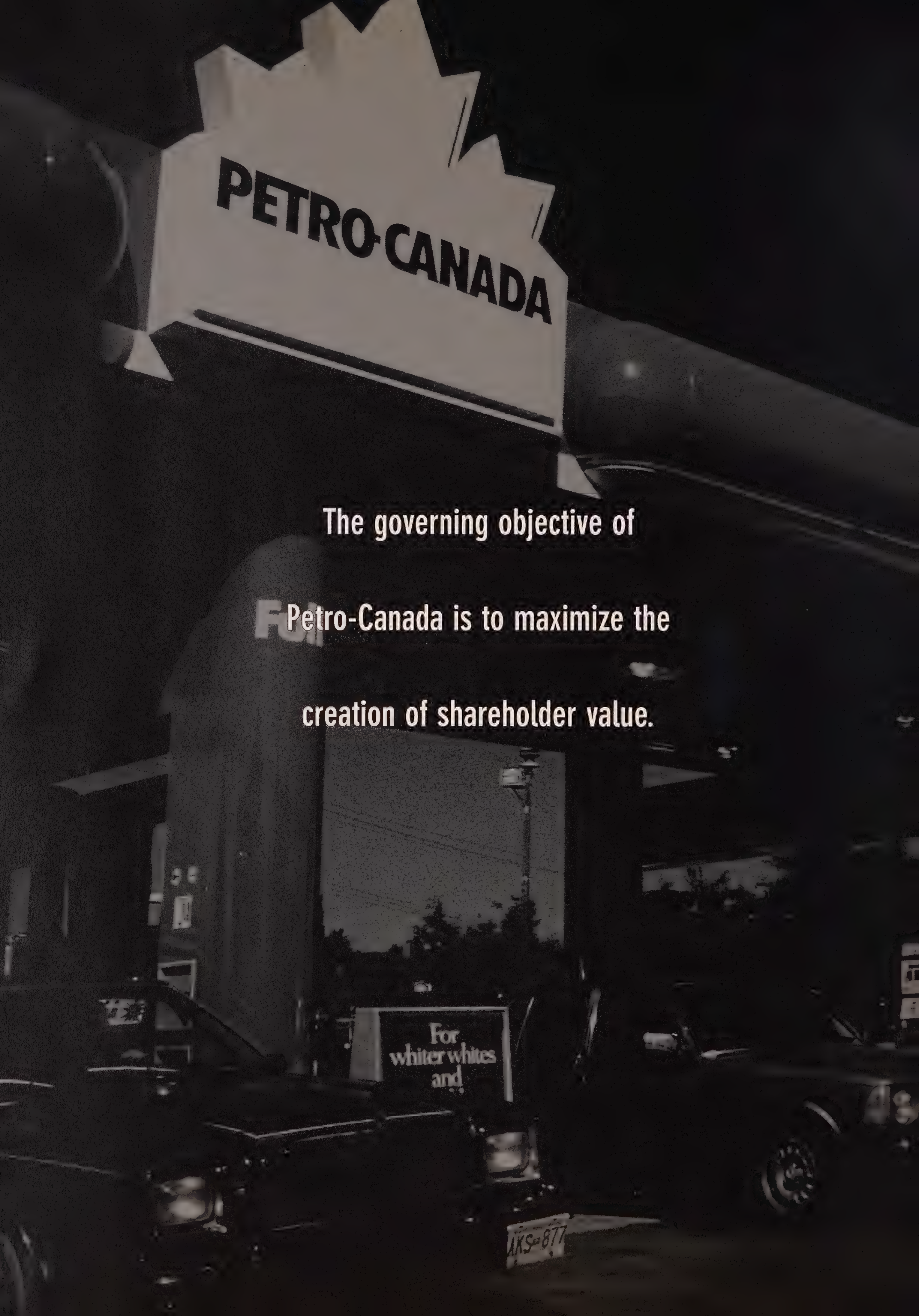


FOCUS ON SAFETY HAS REDUCED INJURIES

Rate of injuries requiring medical treatment or time away from work for Petro-Canada employees
(incidents per 200 000 work hours – approximately 100 person-years)

SPILL RESPONSE EXERCISES MAINTAIN READINESS

Preventing oil spills and other discharges is a primary objective, but Petro-Canada also conducts training exercises to ensure it can respond quickly to any spill. A two-day simulation off Sidney, British Columbia, in conjunction with industry spill response organizations, the Canadian Coast Guard and federal and provincial environmental authorities, provided practice in effective oil spill control and recovery in a sensitive marine environment.



The governing objective of

Petro-Canada is to maximize the

creation of shareholder value.

Wesley Twiss
Executive Vice-President

Management's Discussion and Analysis is printed as a separate document, which is included in the mailing to shareholders and is also available on request (see inside back cover). The shorter Financial Review presented here describes Petro-Canada's financial performance in 1995 and management's outlook for the future.

FINANCIAL STRATEGY

Our goal is to create superior shareholder value. We will accomplish this by continuing to improve the performance of our existing businesses and by investing in profitable growth opportunities within the integrated oil and gas sector. We follow value-based management principles in all decisions affecting the business portfolio and new investments. Prudent management of the balance sheet remains a top priority.

In 1995, our focus was to achieve progress in performance improvements and growth, while maintaining a strong financial position. Excluding the charge related to the organizational restructuring, we achieved our best earnings from operations since privatization. The restructuring will improve our strategic effectiveness and reduce costs. We made significant investments in our growth opportunities, with a capital expenditure program totaling $853 million. Our investments in growth increased our capital employed, causing operating return on capital employed to remain steady despite higher earnings.

Our debt increased slightly with the issue of $150 million of Hibernia-related debt, bringing debt to two times cash flow, which is within the Company's target. In 1996, the Company plans to fund capital expenditures with internally generated funds, including proceeds from the recently completed sale of personal credit card receivables.

Wesley R. Twiss
Executive Vice-President

KEY FINANCIAL RESULTS	1995	1994	1993
CONSOLIDATED			
(millions of dollars, unless otherwise stated)			
Earnings from operations before organizational restructuring charge	241	219	157
Organizational restructuring	(52)	—	—
Earnings from operations	189	219	157
Unusual items and gains on asset sales	7	43	3
Net earnings	196	262	160
Per share *(dollars)*	0.79	1.06	0.65
Cash flow	705	701	631
Per share *(dollars)*	2.86	2.84	2.56
Operating return on capital employed *(in 1995, before organizational restructuring charge) (per cent)*	5.7	5.8	4.8
Return on capital employed *(per cent)*	4.9	6.7	4.8
Cash flow return on capital employed *(per cent)*	14.8	15.9	15.3
Expenditures on property, plant and equipment and exploration	853	702	609
Debt	1 381	1 259	1 205
Debt to cash flow *(times)*	2.0	1.8	1.9
Debt to debt plus equity *(per cent)*	30.9	29.9	30.7
Cash	43	95	129

EARNINGS FROM OPERATIONS ROSE $22 MILLION

(millions of dollars)
**excludes organizational restructuring charge in 1995*

CASH FLOW INCREASED SLIGHTLY

(millions of dollars)

RETURN MEASURES WERE AFFECTED BY RESTRUCTURING AND INVESTMENT IN GROWTH IN 1995 *(per cent)*

● *Cash flow return on capital employed*
● *Return on capital employed*

RECORD YEAR ACHIEVED WHILE INVESTING IN GROWTH

Petro-Canada had several objectives in 1995: to improve performance through continued cost reductions; to increase operating efficiencies and asset utilization; and to invest in growth. An underlying determinant of success was maintaining a strong balance sheet. These objectives all lead towards a fundamental goal – the creation of superior shareholder value.

Excluding a charge related to the organizational restructuring, Petro-Canada achieved record results in 1995, with earnings from operations of $241 million ($0.98 per share). Cash flow was $705 million ($2.86 per share). Earnings from operations were $219 million in 1994 ($0.89 per share), and cash flow was $701 million ($2.84 per share). In 1995, net earnings of $196 million ($0.79 per share) included a $52 million after-tax charge related to the organizational restructuring, and $7 million in gains on asset sales. Net earnings were $262 million ($1.06 per share) in 1994, including gains on asset sales of $43 million.

The Company improved its performance largely through better management of controllables, as well as initiatives to insulate earnings from downturns in the business environment. The results reflect higher prices and production volumes of crude oil and liquids, improved margins in the natural gas liquids business and reduced downstream costs. Hedging afforded some protection from sharply lower natural gas prices, while an improved sales mix in the downstream offset the negative business environment.

The Company's reinvestment ratio – capital expenditures in relation to cash flow – is indicative of its commitment to growth. With a reinvestment ratio of 1.12, Petro-Canada is investing in its future.

The return on capital employed was 4.9 per cent, down from 6.7 per cent a year earlier. Excluding the organizational restructuring charge, operating return on capital employed was 5.7 per cent. Cash flow return on capital employed was 14.8 per cent, down from 15.9 per cent in the prior year. These return measures were affected by increased capital employed related to Hibernia and other growth opportunities, but they are expected to improve as benefits from these investments are realized.

CAPITAL EXPENDITURES DIRECTED TO GROWTH

In 1995, Petro-Canada increased its capital expenditures on property, plant and equipment and exploration from $702 million in 1994 to $853 million. Of this

CAPITAL EXPENDITURE PROGRAM SUPPORTS GROWTH

Capital expenditures on property, plant and equipment and exploration. *(millions of dollars) *planned expenditures*

CONTINUED REDUCTIONS IN ONGOING OPERATING AND OVERHEAD COSTS

(millions of dollars)
**excludes organizational restructuring costs in 1995*

amount, over half was directed to growth opportunities.

Investment related to East Coast oil projects accounted for more than $240 million. Some $145 million was invested in expanding the natural gas business and $32 million in Algeria, where the first development well was spudded. Another $45 million was invested in the expansion of the lubricants business. The remaining capital was mainly used in exploiting oil reserves in Western Canada, acquiring high-potential upstream properties, and upgrading refining, marketing and lubricants facilities.

GOVERNMENT SOLD 123.9 MILLION SHARES

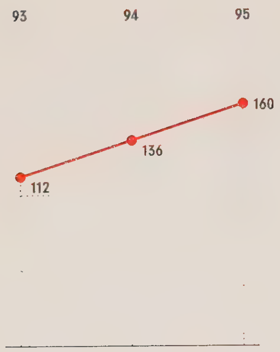
In September 1995, the Government of Canada sold 123.9 million shares, reducing its ownership in Petro-Canada to 20 per cent. The public float rose to 197.3 million shares, with shares sold in Canada, the United States and Europe. Valued at $1.8 billion, this was the largest oil and gas share issue in 1995, and, at the time, the largest Canadian equity offering ever. At year-end, Petro-Canada's public float ranked 24th among TSE 300 companies, representing 0.97 per cent of the index.

The shares were sold as instalment receipts. The purchaser receives full dividends and voting rights, while paying for the shares over time. Concurrently, Petro-Canada listed its shares and instalment receipts on the New York Stock Exchange.

Petro-Canada's shareholders are largely institutional investors, with no single investor holding more than 10 per cent of the public float. At January 31, 1996, non-resident ownership, limited to a maximum of 25 per cent of the public float by legislation governing Petro-Canada's privatization, was 22.9 per cent.

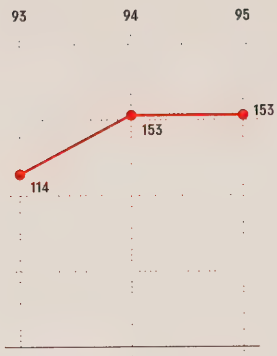
PRUDENT MANAGEMENT OF BALANCE SHEET CONTINUES

The Company maintained its commitment to prudent financial management in 1995, despite an aggressive investment program. Debt rose $122 million to $1 381 million, due to a net increase of $150 million in Hibernia-related Government-guaranteed debt, with revaluation of debt denominated in U.S. dollars accounting for the offsetting $28 million. Total debt increased slightly, to two times cash flow. Debt to debt plus equity was 30.9 per cent. These measures, which represent the ability to repay debt and the relative magnitude of debt and equity in the capital structure, are close to the Company's targets and consistent with industry benchmarks.



DOWNSTREAM EARNINGS FROM OPERATIONS CONTINUED TO RISE

(millions of dollars)



UPSTREAM EARNINGS FROM OPERATIONS WERE STEADY

(millions of dollars)

Dividends on common shares totaled $49 million, up from $41 million in 1994, as shareholders received $0.20 per share in 1995 compared with $0.1475 per share in the prior year. The Board of Directors reviews the dividend policy periodically when evaluating expected earnings and cash requirements.

In January 1996, the Company sold its personal credit card receivables for approximately $110 million, immediately reducing working capital requirements.

In 1996, Petro-Canada plans to fund growth with internally generated funds, including the proceeds from the sale of receivables.

EXPOSURE TO BUSINESS ENVIRONMENT

Petro-Canada's exposure management program is designed to reduce the variability of cash flow and earnings related to changes in commodity prices, currency exchange rates, interest rates and physical risks. The hedging portion of the program is managed through conservative policies approved by the Board of Directors and operating procedures and control systems. Petro-Canada does not speculate with derivative instruments. The Company has hedges in place to manage crude oil and natural gas prices, downstream margins, currency and interest rates.

Hedge positions are reviewed regularly with the Board of Directors. The Company manages its exposures to physical risk through a comprehensive risk assessment and mitigation process, and maintains adequate insurance coverage.

The net effect of commodity and currency hedging during 1995 was a gain of $13 million after tax, down from $22 million the prior year, largely because there were more opportunities to lock in at higher commodity prices in 1994 than in 1995.

MANAGEMENT'S OUTLOOK

Natural gas prices have posed the most significant threat to the upstream business environment over the past 18 months, and management expects prices to remain low in 1996 and 1997. Barring persisting severe weather conditions, oversupply will continue in the market for Canadian natural gas, and Petro-Canada expects prices to remain depressed until pipeline capacity into the United States is expanded. Management anticipates prices will strengthen in the medium to long term as a result of rising demand. The Alberta plant gate price for natural gas is expected to average about $1.45 per thousand cubic feet in 1996, and $1.50 per thousand cubic feet in 1997, up modestly over 1995.

Increased concern over rising non-OPEC production, as well as speculation about the possible resumption of exports by Iraq, has

GLOSSARY OF FINANCIAL TERMS AND RATIOS

TERMS

CAPITAL EMPLOYED: Total assets excluding the translation adjustment on long-term debt, less current liabilities excluding notes payable – Hibernia.

CASH: Cash and short-term investments.

CASH FLOW: Cash flow from operations before changes in non-cash working capital items.

DEBT: Notes payable – Hibernia and long-term debt including current portion.

EARNINGS FROM OPERATIONS: Earnings before gains (losses) on asset sales and unusual items, net of income taxes.

OPERATING EXPENSES: Producing, refining and marketing expenses.

OVERHEAD EXPENSES: General and administrative expenses.

RATIOS

CASH FLOW RETURN ON CAPITAL EMPLOYED: Cash flow plus after-tax interest expense divided by average capital employed. Measures cash flow generated relative to the asset base.

DEBT TO CASH FLOW: Debt divided by cash flow. Shows the Company's ability to discharge its outstanding debt.

DEBT TO DEBT PLUS EQUITY: Debt divided by debt plus equity. Indicates the relative amount of debt in the Company's capital structure. Measures financial strength.

OPERATING RETURN ON CAPITAL EMPLOYED: Earnings from operations plus after-tax interest expense divided by average capital employed. Measures operating earnings relative to the asset base.

REINVESTMENT RATIO: Net investing activities divided by cash flow. Measures amount reinvested in growth and other initiatives.

RETURN ON CAPITAL EMPLOYED: Net earnings plus after-tax interest expense divided by average capital employed. Measures earnings generated relative to the asset base.

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led to a somewhat lower estimate of the average price of West Texas Intermediate crude oil in the near term. Management expects it to average U.S. $17.50 per barrel in 1996 and 1997. If Iraq re-enters the market in 1997, prices are expected to decline to an average of approximately $16.50 per barrel.

The downstream business environment is expected to remain fairly steady, with flat near-term demand for refined petroleum products. In the longer term, demand is expected to improve modestly with economic growth.

With a continued focus on cost reduction and operating efficiencies, Petro-Canada plans to achieve greater resilience to changes in the business environment. Strategies are in place to manage exposure to a negative price environment as well as to capitalize on a positive price environment. In addition, the natural gas liquids business provides a natural hedge to low gas prices. In the Downstream, Petro-Canada has considerable flexibility to alter the mix of refinery feedstocks to improve margins.

In tandem with continuous improvement, Petro-Canada will invest in its four main growth areas, focusing on bringing projects on stream. The Board of Directors has approved an $870 million capital expenditure program for 1996, almost half of which will fund growth, signaling continued confidence in the Company's ability to generate cash flow and confirming the strategy of measured growth.

Upstream investments in Western Canada will account for around $300 million, with about $240 million directed towards conventional exploration and development and strategic property acquisitions. Expenditures for offshore development, including Hibernia and Terra Nova, will total about $210 million, while about $30 million will be invested in Algeria to complete development of Petro-Canada's oil discovery and for further exploration.

In the Downstream, around $180 million will be allocated to refining and marketing, and in excess of $100 million will be invested in lubricants, largely to complete the plant expansion.

Around $40 million will be directed to corporate investments, including capital expenditures related to re-engineering.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The preparation and presentation of the Company's consolidated financial statements is the responsibility of management. The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include estimates which are based on management's best judgements. Information contained elsewhere in the Annual Report is consistent, where applicable, with that contained in the financial statements.

Management is also responsible for installing and maintaining a system of internal controls to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced for preparation of financial statements.

Arthur Andersen & Co., a firm of chartered accountants, were appointed by the shareholders as external auditors to conduct an independent examination and express their opinion on the consolidated financial statements. The Auditors' Report outlines the auditors' opinion and the scope of their examination. During 1995 the Company's internal audit function was contracted out to Arthur Andersen & Co. who conduct the review of the system of internal controls previously conducted by the internal auditor.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises these responsibilities with the assistance of the Audit Committee of the Board.

President and Chief Executive Officer

Executive Vice-President
(chief financial officer)
January 31, 1996

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Board of Directors exercises its responsibility for ensuring that management fulfills its financial reporting and internal control duties with the assistance of the Audit Committee of the Board.

The Committee, which is composed of not less than three (currently five) directors who are not employees of the Company, reviews the annual consolidated financial statements prior to their approval by the Board. The Committee also reviews financial information contained in prospectuses and in reports filed with regulatory authorities, as required, as well as quarterly financial information.

With respect to the external auditors, the Committee reviews the terms of engagement, the annual audit plan, the Auditors' Report and the results of the audit. The Committee also recommends to the Board a firm of external auditors to be appointed by the shareholders.

With respect to Arthur Andersen & Co.'s engagement as contract auditor to review the system of internal controls, the Committee receives periodic reports, reviews significant findings and recommendations and approves their engagement contract and annual review plan.

Senior management, the external auditor and the contract auditor attend all Audit Committee meetings and each is provided with the opportunity to meet privately with the Committee.

Chairman of the Audit Committee
January 31, 1996

AUDITORS' REPORT

To the Shareholders of Petro-Canada:
We have audited the consolidated balance sheet of Petro-Canada as at December 31, 1995 and 1994 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1995 in accordance with generally accepted accounting principles.

Arthur Andersen & Co.

Chartered Accountants
Calgary, Alberta
January 31, 1996

CONSOLIDATED STATEMENT OF EARNINGS

(stated in millions of Canadian dollars)

FOR THE YEARS ENDED DECEMBER 31,	1995	1994	1993
		(Restated) (Note 3)	
REVENUE			
Operating	$ 4 739	$ 4 641	$ 4 554
Investment and other income	81	117	75
	4 820	4 758	4 629
EXPENSES			
Crude oil and product purchases	2 361	2 273	2 208
Producing, refining and marketing	1 242	1 289	1 307
General and administrative *(Note 5)*	308	209	232
Exploration	43	34	28
Depreciation, depletion and amortization	338	347	354
Taxes other than income taxes	68	71	66
Interest on long-term debt	81	88	85
Other interest	9	11	15
	4 450	4 322	4 295
UNUSUAL ITEM *(Note 6)*	—	51	—
EARNINGS BEFORE INCOME TAXES	370	487	334
PROVISION FOR INCOME TAXES *(Note 7)*			
Current	120	126	119
Deferred	54	99	55
	174	225	174
NET EARNINGS	$ 196	$ 262	$ 160
NET EARNINGS PER COMMON SHARE *(dollars) (Note 8)*	$ 0.79	$ 1.06	$ 0.65

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(stated in millions of Canadian dollars)

FOR THE YEARS ENDED DECEMBER 31,	1995	1994	1993
RETAINED EARNINGS AT BEGINNING OF YEAR	$ (429)	$ (650)	$ (778)
Net earnings	196	262	160
Dividends on common shares	(49)	(41)	(32)
RETAINED EARNINGS AT END OF YEAR	$ (282)	$ (429)	$ (650)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(stated in millions of Canadian dollars)

FOR THE YEARS ENDED DECEMBER 31,	1995	1994 (Restated) (Note 3)	1993 (Restated) (Note 3)
OPERATING ACTIVITIES			
Net earnings	$ 196	$ 262	$ 160
Items not affecting cash flow *(Note 9)*	466	405	443
Exploration expenses *(Note 12)*	43	34	28
Cash flow	705	701	631
(Increase) decrease in operating working capital and other *(Note 10)*	(65)	(241)	15
Cash flow from operating activities	640	460	646
INVESTING ACTIVITIES			
Expenditures on property, plant and equipment and exploration	(853)	(702)	(609)
Proceeds from sale of property, plant and equipment	48	250	88
Decrease (increase) in deferred charges and other assets, net	14	(2)	(19)
	(791)	(454)	(540)
FINANCING ACTIVITIES AND DIVIDENDS			
Dividends on common shares	(49)	(41)	(32)
Reduction of long-term debt	(2)	(13)	(93)
Increase in notes payable – Hibernia	150	—	64
Proceeds from issue of long-term debt	—	12	1
Proceeds from issue of common shares	—	2	1
	99	(40)	(59)
(DECREASE) INCREASE IN CASH AND SHORT-TERM INVESTMENTS	(52)	(34)	47
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	95	129	82
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	$ 43	$ 95	$ 129

CONSOLIDATED BALANCE SHEET

(stated in millions of Canadian dollars)

AS AT DECEMBER 31,	1995	1994 *(Restated) (Note 3)*
ASSETS		
CURRENT ASSETS		
Cash and short-term investments	$ 43	$ 95
Accounts receivable	796	765
Income taxes recoverable	86	11
Inventories *(Note 11)*	413	436
Prepaid expenses	24	32
	1 362	1 339
PROPERTY, PLANT AND EQUIPMENT, NET *(Note 12)*	4 829	4 379
DEFERRED CHARGES AND OTHER ASSETS *(Note 13)*	297	358
	$6 488	$6 076
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$1 058	$1 001
Notes payable – Hibernia *(Note 14)*	50	—
	1 108	1 001
NOTES PAYABLE – HIBERNIA *(Note 14)*	250	150
LONG-TERM DEBT *(Note 15)*	1 081	1 109
DEFERRED CREDITS AND OTHER LIABILITIES *(Note 16)*	336	296
DEFERRED INCOME TAXES	621	575
COMMITMENTS AND CONTINGENT LIABILITIES *(Note 22)*		
SHAREHOLDERS' EQUITY *(Note 17)*	3 092	2 945
	$6 488	$6 076

Approved on behalf of the Board

Director   *Director*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts stated in millions of Canadian dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Petro-Canada and of all subsidiary companies ("the Company") and comply in all material respects with Canadian generally accepted accounting principles.

(B) INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost of crude oil and products is determined primarily on a "last-in, first-out" basis.

(C) INVESTMENTS

Investments in companies over which the Company has significant influence are accounted for on the equity method. Other long-term investments are accounted for on the cost method.

(D) PROPERTY, PLANT AND EQUIPMENT

Investments in exploration and development activities are accounted for on the successful efforts method. Under this method the acquisition cost of unproved acreage is capitalized. Costs of exploratory wells are initially capitalized pending determination of proved reserves and costs of wells which are assigned proved reserves remain capitalized while costs of unsuccessful wells are charged to earnings. All other exploration costs are charged to earnings as incurred. Development costs, including the cost of all wells, are capitalized.

Substantially all of the Company's exploration and development activities are conducted jointly with others. Only the Company's proportionate interest in such activities is reflected in the financial statements.

The interest cost of debt attributable to the construction of major new facilities is capitalized during the construction period.

(E) DEPRECIATION, DEPLETION AND AMORTIZATION

The carrying amounts of unproved properties are evaluated periodically for impairment with any such impairment being charged to earnings.

Depreciation and depletion of capitalized costs of oil and gas producing properties is calculated using the unit of production method.

Depreciation of other plant and equipment is provided on either the unit of production method or the straight line method, based on the estimated service lives of the related assets, as appropriate.

(F) FUTURE REMOVAL AND SITE RESTORATION COSTS

Estimated future removal and site restoration costs which are probable and can be reasonably determined are provided for on either the unit of production method or the straight line method, based on the estimated service lives of the related assets, as appropriate.

(G) TRANSLATION OF FOREIGN CURRENCY

Monetary assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Other assets and related depreciation, depletion and amortization, other liabilities, revenue and other expense items are translated at rates of exchange in effect at the respective transaction dates. The resulting exchange gains or losses are included in earnings, except for unrealized exchange gains or losses arising on translation of long-term debt, which are deferred and amortized over the remaining term of the debt.

Foreign operations are integrated with the Company's other activities and are translated in the manner described above.

(H) HEDGING ACTIVITY

The Company uses derivative instruments to reduce its exposure to foreign exchange, interest rate and commodity price fluctuations. Gains and losses on these contracts which constitute effective hedges are deferred and recognized as a component of the related transaction.

(I) POST RETIREMENT BENEFITS

In addition to its pension plans the Company provides for other post retirement benefits, including health, dental and life insurance, to its qualifying retirees. The actuarially determined cost of these benefits are accrued over the estimated service lives of employees.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts stated in millions of Canadian dollars)

2. SEGMENTED INFORMATION

The Company operates in two business segments:

Upstream, comprising: exploration, development, production, transportation and marketing activities for crude oil, natural gas, propane, field liquids, sulphur and oil sands; and extraction of liquids from natural gas.

Downstream, comprising: purchase and sale of crude oil; refining crude oil into oil products; and distribution and marketing of these and other purchased products.

Financial information by business segment is presented in the following table as though each segment were a separate business entity. Inter-segment transfers of products, which are accounted for at market value, are eliminated on consolidation. Shared Services includes investment income, interest expense and general corporate revenues and expenditures. Shared Services assets are principally cash and short-term investments, buildings and other general corporate assets.

	UPSTREAM			DOWNSTREAM		
	1995	1994	1993	1995	1994	1993
REVENUE						
Sales to customers and other revenues	$ 790	$ 921	$ 833	$ 4 029	$ 3 827	$ 3 782
Inter-segment sales	553	499	532	13	24	32
SEGMENT REVENUE	$ 1 343	$ 1 420	$ 1 365	$ 4 042	$ 3 851	$ 3 814
EARNINGS						
Operating earnings before the following:	$ 565	$ 577	$ 496	$ 401	$ 359	$ 333
Depreciation, depletion and amortization	(217)	(220)	(232)	(118)	(124)	(119)
Exploration expense	(43)	(34)	(28)	—	—	—
Unusual item	—	51	—	—	—	—
Provision for income taxes	(146)	(181)	(121)	(122)	(97)	(100)
NET EARNINGS	$ 159	$ 193	$ 115	$ 161	$ 138	$ 114
CAPITAL AND EXPLORATION EXPENDITURES						
Property, plant and equipment and exploration expenditures	$ 587	$ 527	$ 414	$ 254	$ 169	$ 190
Deferred charges and other assets	(18)	(5)	16	(2)	(1)	(3)
	$ 569	$ 522	$ 430	$ 252	$ 168	$ 187
TOTAL ASSETS	$ 3 263	$ 2 912	$ 2 758	$ 2 743	$ 2 672	$ 2 444
CAPITAL EMPLOYED	$ 2 919	$ 2 573	$ 2 463	$ 2 061	$ 2 029	$ 1 851

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts stated in millions of Canadian dollars)

2. SEGMENTED INFORMATION *(continued)*

	SHARED SERVICES 1995	1994	1993	CONSOLIDATED 1995	1994	1993
REVENUE						
Sales to customers and other revenues	$ 1	$ 10	$ 14	$ 4 820	$ 4 758	$ 4 629
Inter-segment sales	—	—	—			
SEGMENT REVENUE	$ 1	$ 10	$ 14			
EARNINGS						
Operating earnings (loss) before the following:	$ (125)	$ (20)	$ (13)	$ 841	$ 916	$ 816
Depreciation, depletion and amortization	(3)	(3)	(3)	(338)	(347)	(354)
Exploration expense	—	—	—	(43)	(34)	(28)
Interest	(90)	(99)	(100)	(90)	(99)	(100)
Unusual item	—	—	—	—	51	—
(Provision for) recovery of income taxes	94	53	47	(174)	(225)	(174)
NET EARNINGS (LOSS)	$ (124)	$ (69)	$ (69)	$ 196	$ 262	$ 160
CAPITAL AND EXPLORATION EXPENDITURES						
Property, plant and equipment and exploration expenditures	$ 12	$ 6	$ 5	$ 853	$ 702	$ 609
Deferred charges and other assets	6	8	6	(14)	2	19
	$ 18	$ 14	$ 11	$ 839	$ 704	$ 628
TOTAL ASSETS	$ 482	$ 492	$ 494	$ 6 488	$ 6 076	$ 5 696
CAPITAL EMPLOYED	$ 333	$ 316	$ 287	$ 5 313	$ 4 918	$ 4 601

3. CHANGE IN ACCOUNTING POLICY

Effective January 1, 1995 the Company adopted new recommendations of the Canadian Institute of Chartered Accountants which require the use of the proportionate consolidation method of accounting for interests in joint ventures, previously accounted for on the equity method. This change has been applied retroactively and the financial statements of prior years have been restated.

As at January 1, 1995 the effect of this change was to increase property, plant and equipment and long-term debt by $196 million and $153 million, respectively, and decrease deferred charges and other assets and other items by $43 million; the change did not affect net earnings or retained earnings for 1995 or any previous year.

4. TAXES AND CROWN ROYALTIES

In addition to the provision for income taxes and other taxes included in the consolidated statement of earnings, the following items have been collected or produced on behalf of governments and have been paid or are payable by the Company:

	1995	1994	1993
Provincial fuel and sales taxes	$ 1 196	$ 1 135	$ 1 130
Federal excise taxes	766	676	708
Goods and Services Tax collected	514	517	542
Crown royalties, paid and paid in kind	129	124	117
	$ 2 605	$ 2 452	$ 2 497

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts stated in millions of Canadian dollars)

5. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for 1995 include a provision of $87 million for the cost of an organizational restructuring program resulting in a workforce reduction and related changes in office space requirements. This program is being undertaken in 1995 and 1996; the provision decreased 1995 net earnings by $52 million and cash flow by $28 million.

6. UNUSUAL ITEM

During 1994 the Company disposed of TroCana Resources, a business unit formed to hold certain non-core oil and gas properties, resulting in a gain of $51 million.

7. INCOME TAXES

The computation of the provision for income taxes, which requires adjustment to earnings before income taxes for non-taxable and non-allowable items, is as follows:

	1995	1994	1993
Earnings before income taxes	$ 370	$ 487	$ 334
Add (deduct):			
Royalties and other payments to provincial governments, net	105	120	115
Resource allowance	(93)	(115)	(117)
Non-deductible depreciation, depletion and amortization	49	78	66
Equity in earnings of affiliates	(11)	(8)	(7)
Other	7	(9)	2
Earnings as adjusted before income taxes	$ 427	$ 553	$ 393
Canadian Federal income tax rate	38.0%	38.0%	38.0%
Canadian Federal income tax on earnings as adjusted	$ 162	$ 210	$ 149
Large Corporations Tax	11	9	9
Provincial and other income taxes, net of federal abatement	22	26	16
Rebates and other	(21)	(20)	—
Provision for income taxes	$ 174	$ 225	$ 174

The provision for income taxes of $174 million (1994 – $225 million; 1993 – $174 million) represents an effective rate of 47.0% (1994 – 46.2%; 1993 – 52.1%) on earnings before income taxes.

8. NET EARNINGS PER COMMON SHARE

The basic net earnings per common share, based on the weighted average number of common shares outstanding in 1995 of 246.7 million (1994 – 246.7 million; 1993 – 246.5 million), for the year ended December 31, 1995 was $0.79 (1994 – $1.06; 1993 – $0.65). Fully diluted earnings per share, calculated on the assumption that all outstanding stock options were exercised, do not differ from the basic net earnings per common share.

9. ITEMS NOT AFFECTING CASH FLOW

	1995	1994	1993
Depreciation, depletion and amortization	$ 338	$ 347	$ 354
Deferred income taxes	54	99	55
Provision for future removal and site restoration costs	22	24	24
Amortization of unrealized foreign exchange losses	13	20	14
Gain on sale of assets	(13)	(40)	(11)
Unusual item *(Note 6)*	—	(51)	—
Organizational restructuring *(Note 5)* and other	52	6	7
	$ 466	$ 405	$ 443

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts stated in millions of Canadian dollars)

10. (INCREASE) DECREASE IN OPERATING WORKING CAPITAL AND OTHER

	1995	1994	1993
Accounts receivable	$ (31)	$ (220)	$ 39
Income taxes recoverable	(75)	(11)	8
Inventories	23	8	17
Prepaid expenses	8	(2)	(3)
Accounts payable and accrued liabilities	57	75	(13)
Income taxes payable	—	(53)	53
Advances on future natural gas deliveries	—	(4)	(12)
Current portion of long-term liabilities and other	(47)	(34)	(74)
	$ (65)	$ (241)	$ 15

Operating working capital is comprised of working capital other than cash and short-term investments and notes payable – Hibernia.

11. INVENTORIES

	1995	1994
Crude oil, refined products and merchandise	$ 349	$ 381
Materials and supplies	64	55
	$ 413	$ 436

12. PROPERTY, PLANT AND EQUIPMENT

	1995			1994			CAPITAL EXPENDITURES	
	COST	ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION	NET	COST	ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION	NET	1995	1994
UPSTREAM								
Oil and gas								
Canada non-frontier	$ 3 073	$ 1 789	$ 1 284	$ 2 892	$ 1 662	$ 1 230	$ 225	$ 208
Hibernia Project	852	—	852	613	—	613	239	234
Other frontier	74	—	74	69	—	69	5	1
Foreign	29	—	29	8	—	8	21	7
Oil sands								
Syncrude Project	566	212	354	546	200	346	20	14
Other	215	215	—	216	216	—	—	—
Natural gas liquids	532	291	241	533	290	243	34	24
Other	76	68	8	80	71	9	—	5
	5 417	2 575	2 842	4 957	2 439	2 518	544	493
DOWNSTREAM								
Refining	2 311	1 340	971	2 149	1 275	874	153	81
Marketing and other	1 277	471	806	1 221	437	784	101	88
	3 588	1 811	1 777	3 370	1 712	1 658	254	169
OTHER PROPERTY, PLANT AND EQUIPMENT	499	289	210	480	277	203	12	6
	$ 9 504	$ 4 675	$ 4 829	$ 8 807	$ 4 428	$ 4 379	$ 810	$ 668

Interest capitalized during 1995 amounted to $28 million (1994 – $17 million; 1993 – $14 million).

Costs relating to the Hibernia Project, Other frontier and Foreign are not currently being amortized.

Capital expenditures and exploration expenses charged to earnings are classified as investing activities in the consolidated statement of changes in financial position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts stated in millions of Canadian dollars)

13. DEFERRED CHARGES AND OTHER ASSETS

	1995	1994
Translation adjustment on long-term debt	$ 117	$ 157
Deferred pension funding	77	69
Investments	40	40
Goodwill	32	39
Investment tax credits	4	22
Other	27	31
	$ 297	$ 358

14. NOTES PAYABLE – HIBERNIA

Notes payable – Hibernia comprise $150 million 6.125% bonds issued in 1993 and $100 million 7.74% bonds issued in 1995, both of which mature in 1998. The Company has also issued in 1995 $50 million short-term notes payable which will be refinanced by future issues of short-term notes payable. These bonds and notes relate to the Hibernia Project and are guaranteed by the Government of Canada (Note 22(a)); recourse of the holders is limited to the guarantee.

15. LONG-TERM DEBT

	MATURITY	1995	1994
9.375% unsecured notes[1]	1997	$ 109	$ 114
8.60% unsecured notes (U.S. $300 million)	2001	410	421
9.25% unsecured debentures (U.S. $300 million)	2021	410	421
Notes payable[2]	1997	62	62
Mortgage bonds[2]	2006	80	81
Other		10	10
		$ 1 081	$ 1 109

[1] *Canadian dollar notes and the related interest payments have been converted into U.S. $80 million (1994 – U.S. $81 million) through a currency swap arrangement, resulting in an effective interest rate of 7.39% (Note 21).*

[2] *The outstanding debt relates to the Company's 50% ownership of Petro-Canada Centre, an office complex in Calgary and consists of two revolving term credit facilities. Through the use of derivative instruments the interest rate on this debt has been set for 1996 (Note 21). The total Petro-Canada Centre debt of $284 million has a joint and several guarantee by the co-owners.*

The minimum repayments of long-term debt in the next five years are $109 million in 1997 and $250 million of Notes payable – Hibernia in 1998 (Note 14). The $62 million notes payable which mature in 1997 are expected to be refinanced through the establishment of a new long-term arrangement.

16. DEFERRED CREDITS AND OTHER LIABILITIES

	1995	1994
Future removal and site restoration costs	$ 150	$ 156
Post retirement benefits	103	97
Long-term liabilities	83	43
	$ 336	$ 296

17. SHAREHOLDERS' EQUITY

	1995	1994
Common shares	$ 802	$ 802
Contributed surplus	2 572	2 572
Retained earnings (deficit)	(282)	(429)
	$ 3 092	$ 2 945

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts stated in millions of Canadian dollars)

17. SHAREHOLDERS' EQUITY *(continued)*

The authorized share capital of the Company is comprised of an unlimited number of: (a) Preferred shares issuable in series designated as Senior Preferred Shares; (b) Preferred shares issuable in series designated as Junior Preferred Shares; and (c) Common shares.

Changes in share capital were as follows:

	1995		1994	
	COMMON SHARES		COMMON SHARES	
	SHARES	AMOUNT	SHARES	AMOUNT
Balance at beginning of year	246 667 063	$ 802	246 526 043	$ 800
Issued under stock option plan	51 980	—	141 020	2
Balance at end of year	246 719 043	$ 802	246 667 063	$ 802

The Company has granted options to purchase shares under the terms of the Executive Stock Option Plan. Stock options outstanding as at December 31, 1995 were as follows:

EXPIRY DATE	OPTION PRICE	NUMBER OF SHARES
July 3, 2001	$ 13.000	931 709
July 29, 2002	8.125	430 600
December 31, 2002	15.750	482 400
March 18, 2003	7.875	312 800
March 2, 2004	13.625	194 560
March 1, 2005	11.500	224 100

18. PENSION PLANS

The Company's plans are defined benefit plans with the benefits generally based upon years of service and average salary during the final years of employment. The registered pension plans are funded by the Company, based upon the advice of an independent actuary, and the assets are held primarily in equity, fixed income and other marketable securities.

	1995	1994
FINANCIAL STATUS		
Actuarial value of assets	$ 794	$ 751
Pension obligation	771	700
Net pension asset	$ 23	$ 51

The net pension asset is amortized to earnings over the expected average remaining service life of the employees covered by the plans, which is currently 11 years.

As at December 31, 1995 $754 million (1994 – $686 million) of the pension obligation was vested.

	1995	1994	1993
PENSION EXPENSE			
Current service cost	$ 24	$ 23	$ 22
Interest cost	64	59	54
Actual return on plan assets	(109)	3	(142)
Net amortization and deferral	44	(64)	86
	$ 23	$ 21	$ 20
PENSION FUNDING	$ 35	$ 28	$ 31
PLAN ASSUMPTIONS			
Discount rate	9.0%	9.0%	9.0%
Long-term rate of return on plan assets	9.0%	9.0%	9.0%
Rate of compensation increase, excluding merit increases	4.5%[1]	4.0%	6.0%

[1] *Increasing by 0.5% per year to 5.5% per year in 1997 and thereafter.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts stated in millions of Canadian dollars)

19. RELATED PARTY TRANSACTIONS

Transactions with the Government of Canada (which holds 20.0% of the Company's issued common shares at December 31, 1995), its agencies and other related parties, are in the normal course of business and are therefore on the same terms as those accorded to non-related parties.

As at December 31, 1995 officers and employees owed the Company $4 million (1994 – $5 million) in relation to stock purchase plans.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

As at December 31, 1995 the fair value and the related method of determination along with the carrying value of the Company's financial instruments were as follows:

CASH AND SHORT-TERM INVESTMENTS

The fair value of cash and short-term investments approximates the carrying amount of these instruments due to their short maturity.

LONG-TERM DEBT AND NOTES PAYABLE – HIBERNIA

The fair value of long-term debt and notes payable – Hibernia is based on publicly quoted market values.

DERIVATIVE INSTRUMENTS

The fair value of derivative instruments is based on quotes provided by brokers.

	CARRYING AMOUNT	FAIR VALUE
Cash and short-term investments	$ 43	$ 43
Long-term debt and notes payable – Hibernia	(1 381)[1]	(1 518)
Derivative instruments	(6)	(12)

[1] *Excludes translation adjustment of $117 million (Note 13).*

21. DERIVATIVE INSTRUMENTS

CRUDE OIL AND PRODUCTS

In order to reduce exposure to commodity price fluctuations in the upstream business segment, the Company has sold forward 22 000 barrels per day of 1996 oil production at an average price of U.S. $17.79 per barrel. The Company also reduces exposure to refining cracking margin fluctuations in the downstream business segment by buying margin contracts and by buying crude oil contracts and selling heating oil contracts. The downstream business segment has also bought forward crude oil contracts to reduce exposure to margin fluctuations on fixed price product sales.

NATURAL GAS

The Company has bought forward 6 100 million cubic feet of natural gas in order to convert a portion of its 1996 natural gas sales contracts from fixed to variable price. The Company has also sold forward 15 million cubic feet per day of natural gas production at an average price of U.S. $1.50 per thousand cubic feet in order to reduce the Company's exposure to United States dollar based natural gas price fluctuations. The downstream business segment's natural gas contracts outstanding at December 31, 1994 relate to natural gas utilized in refineries.

CURRENCY

The Company has converted the principal and related interest payments of the Canadian dollar notes into United States dollars through currency swaps (Note 15) in order to reduce its exposure to exchange rate movements between the Canadian and United States dollars. The currency contracts outstanding at December 31, 1994 included contracts for $159 million notional principal related to estimated 1995 net currency exposure.

INTEREST RATES

Petro-Canada Centre utilizes revolving term credit facilities (Note 15). In order to reduce the impact of interest rate fluctuations, interest rate swap agreements have been used to convert the floating rate debt into fixed rate debt for approximately 99% of the Company's 1996 exposure at an effective rate of 7.54% and for 25% of the 1997 exposure to June 30, at 7.26%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts stated in millions of Canadian dollars)

21. DERIVATIVE INSTRUMENTS *(continued)*

The Company's outstanding contracts for derivative instruments and related unrealized gains (losses) were as follows:

DECEMBER 31, 1995	QUANTITY	AVERAGE PRICE [1] *(Canadian dollars)*	NOTIONAL PRINCIPAL	UNREALIZED GAINS (LOSSES)	MATURITY
CRUDE OIL AND PRODUCTS *(millions of barrels)*					
Crude oil – upstream	8.0	$24.29	$ 194	$ (4)	1996
Crude oil – downstream	1.9	24.19	46	1	1996
	0.3	25.73	8	—	1997
Heating oil	0.8	29.67	22	—	1996
Heating oil margin	2.5	5.20	13	(1)	1996
			283	(4)	
NATURAL GAS *(millions of cubic feet)*					
Natural gas – bought	6 100	1.74	11	(1)	1996
Natural gas – sold	5 480	2.04	11	—	1996
			22	(1)	
CURRENCY		1.26	74	—	1997
INTEREST RATES			140	(1)	1996
			35	—	1997
			175	(1)	
			$ 554	$ (6)	

DECEMBER 31, 1994	QUANTITY	AVERAGE PRICE [1] *(Canadian dollars)*	NOTIONAL PRINCIPAL	UNREALIZED GAINS (LOSSES)	MATURITY
CRUDE OIL AND PRODUCTS *(millions of barrels)*					
Crude oil – upstream	3.0	$26.02	$ 78	$ 2	1995
Crude oil – downstream	2.3	22.06	51	—	1995
	0.3	25.28	7	—	1996
	0.3	25.97	8	—	1997
Heating oil	0.1	28.55	3	—	1995
			147	2	
NATURAL GAS *(millions of cubic feet)*					
Natural gas – bought	21 900	2.46	54	15	1995
Natural gas – sold	8 300	2.07	17	(6)	1995
			71	9	
CURRENCY		1.36	242	1	1995/97
INTEREST RATES			140	2	1995
			$ 600	$ 14	

[1] *Per barrel or per thousand cubic feet, as applicable.*

Derivative instruments involve a degree of credit risk which the Company controls through the establishment of credit policies and limits and the selection of financially sound counterparties. Market risk relating to changes in value or settlement cost of the Company's derivative instruments is essentially offset by gains or losses on the hedged positions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts stated in millions of Canadian dollars)

22. COMMITMENTS AND CONTINGENT LIABILITIES

(a) The Company is a participant in the project to develop the Hibernia offshore oil field. Costs to production start-up are estimated at $5.9 billion; the Company's 25% share after Government contributions is expected to be approximately $1.2 billion (before related investment tax credits), of which $859 million had been expended to December 31, 1995. The Company's investment in the Project will be financed, in part, by Government guaranteed loans to a maximum of $415 million; the Government's recourse to the Company is limited, subject to the Company's compliance with certain covenants, to the Hibernia Project (Note 14). The Company's share of development costs subsequent to production start-up is estimated at $465 million, which is expected to be financed by cash flow from the Project.

(b) The Company is a party to an agreement for the time charter and operation of a vessel for the transportation of crude oil to be produced from the Hibernia Project. The Company's share of annual fixed obligations is approximately U.S. $12 million. Payments are expected to commence in November 1997 for an initial term of ten years extendable at the Company's option for an additional 15 years.

(c) The Company has leased other property and equipment under various long-term operating leases for periods up to 2014. The minimum annual rentals for non-cancellable operating leases are estimated at $87 million in 1996, $69 million in 1997, $53 million in 1998, $43 million in 1999, $36 million in 2000 and $16 million per year thereafter until 2014.

(d) The Company is involved in litigation and claims associated with normal operations. Management is of the opinion that any resulting settlements would not materially affect the financial position of the Company.

23. COMPARATIVE FIGURES

Certain reclassifications have been made to the 1994 and 1993 comparative figures to conform with the current year's presentation.

24. SUBSEQUENT EVENT

Subsequent to December 31, 1995 the Company sold personal credit card accounts receivable for proceeds equal to its carrying value of approximately $110 million. The purchaser will manage and provide services for these accounts and the ongoing personal credit card operations.

25. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") IN THE UNITED STATES

The Company's consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada, which differ in some respects from those applicable in the United States. The following are the significant differences in accounting principles as they pertain to the accompanying consolidated financial statements.

(a) The Company follows the deferral method of accounting for income taxes. Under United States GAAP the use of the liability method would be required.

(b) Effective January 1, 1994 the Company retroactively changed its method of accounting for post retirement benefits. Under United States GAAP the Company would have elected to have the cumulative effect of this change charged to earnings in 1994.

(c) The Company has deferred unrealized gains and losses on translation of long-term debt payable in foreign currencies for amortization over the remaining term of the debt. Under United States GAAP gains or losses on the translation of long-term debt payable in foreign currencies would be credited or charged to earnings with no deferral.

(d) United States GAAP requires that interest be capitalized as part of the cost of certain assets while they are being prepared for their intended use. The Company does not capitalize interest on all such assets.

(e) The Company has deferred gains and losses relating to the hedging of probable anticipated foreign currency transactions. Under United States GAAP the gains or losses would be credited or charged to earnings with no deferral.

(f) The Company has transferred amounts from contributed surplus to the accumulated deficit. Under United States GAAP these transfers would not have occurred.

(g) The Company uses the proportionate consolidation method of accounting for its investments in joint ventures (Note 3). Under United States GAAP these investments would be accounted for on the equity method. This difference in accounting does not affect net earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts stated in millions of Canadian dollars)

25. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") IN THE UNITED STATES *(continued)*

The application of United States GAAP would have the following effects on earnings as reported:

	1995	1994	1993
Net earnings as reported in the consolidated statement of earnings	$ 196	$ 262	$ 160
Adjustments, net of applicable income taxes			
Accounting for income taxes	20	12	22
Accounting for post retirement benefits	—	—	2
Foreign currency translation	23	(28)	(16)
Capitalization of interest and related amortization	19	21	10
Deferral of net gains (losses) relating to the hedging of probable anticipated foreign currency transactions	(1)	1	12
Earnings as adjusted, before cumulative effect of accounting change	257	268	190
Cumulative effect of change in accounting for post retirement benefits	—	(52)	—
Net earnings, as adjusted	$ 257	$ 216	$ 190
Net earnings per common share, as adjusted			
Before cumulative effect of accounting change	$ 1.04	$ 1.09	$ 0.77
Cumulative effect of change in accounting for post retirement benefits	—	(0.21)	—
After cumulative effect of accounting change	$ 1.04	$ 0.88	$ 0.77

The application of United States GAAP would have the following effects on the consolidated balance sheets as reported:

	AS REPORTED	INCREASE (DECREASE)	UNITED STATES GAAP
DECEMBER 31, 1995			
Current assets	$ 1 362	$ (8)	$ 1 354
Property, plant and equipment, net	4 829	285	5 114
Deferred charges and other assets	297	(80)	217
Current liabilities	1 108	(6)	1 102
Long-term debt	1 081	(152)	929
Deferred income taxes	621	339	960
Contributed surplus	2 572	1 122	3 694
Retained earnings (deficit)	(282)	(1 106)	(1 388)
DECEMBER 31, 1994			
Current assets	$ 1 339	$ (7)	$ 1 332
Property, plant and equipment, net	4 379	283	4 662
Deferred charges and other assets	358	(139)	219
Current liabilities	1 001	(6)	995
Long-term debt	1 109	(153)	956
Deferred income taxes	575	341	916
Contributed surplus	2 572	1 122	3 694
Retained earnings (deficit)	(429)	(1 167)	(1 596)

SUPPLEMENTAL INFORMATION

NET RESERVES OF CRUDE OIL AND NATURAL GAS BEFORE ROYALTIES

Proved reserves of crude oil and liquids increased by 12 million barrels in 1995 to 423 million barrels. Major positive changes included revisions in synthetic crude reserves from an increase in production capability, the booking of 15 million barrels of proven undeveloped reserves in Algeria, and the addition of 13 million barrels of conventional reserves through purchases, discoveries, extensions and improved recovery. Offsetting the positive changes were production of 29 million barrels and sales of reserves in place of one million barrels.

Proved reserves of natural gas increased by four billion cubic feet in 1995. The major positive change was the addition of 154 billion cubic feet from discoveries, extensions and improved recovery. Purchases and revisions added another 59 billion cubic feet. These additions were nearly balanced by production of 199 billion cubic feet and sale of reserves in place of 10 billion cubic feet.

Based on the reserve estimates of participants, 154 million barrels of recoverable reserves before royalties are attributed to Petro-Canada's 25 per cent interest in Hibernia. Reserves at Hibernia and Terra Nova, and additional reserves in Algeria, will be booked when appropriate during the development and production phases of these projects.

	CRUDE OIL AND FIELD NATURAL GAS LIQUIDS *(millions of barrels)*				NATURAL GAS *(billions of cubic feet)*
	CONVENTIONAL WESTERN PROVINCES	CONVENTIONAL INTERNATIONAL	SYNTHETIC CRUDE OIL [1]	TOTAL	
NET PROVED DEVELOPED AND UNDEVELOPED RESERVES BEFORE ROYALTIES [2,3]					
Beginning of year 1993	214	1	202	417	2 404
Revisions of previous estimates	(11)	—	9	(2)	14
Sale of reserves in place	(7)	(1)	—	(8)	(55)
Purchase of reserves in place	1	—	—	1	26
Discoveries, extensions and improved recovery	10	—	—	10	129
Production	(21)	—	(8)	(29)	(205)
End of year 1993	186	—	203	389	2 313
Revisions of previous estimates	(15)	—	65	50	(3)
Sale of reserves in place	(17)	—	—	(17)	(208)
Purchase of reserves in place	10	—	—	10	20
Discoveries, extensions and improved recovery	5	—	—	5	136
Production	(18)	—	(8)	(26)	(197)
End of year 1994	151	—	260	411	2 061
Revisions of previous estimates	—	—	14	14	29
Sale of reserves in place	(1)	—	—	(1)	(10)
Purchase of reserves in place	4	—	—	4	30
Discoveries, extensions and improved recovery [4]	9	15	—	24	154
Production	(20)	—	(9)	(29)	(199)
End of year 1995	143	15	265	423	2 065

[1] *Reserves of synthetic crude oil are based on a gross production rate at Syncrude of approximately 200 000 barrels per day to the year 2025.*

[2] *Net proved developed and undeveloped reserves before royalties are Petro-Canada's working interest in reserves before the deduction of Crown or other royalties. Such royalties are subject to change by legislation or regulation and can also vary depending on production rates, selling prices and timing of initial production. No reserve quantities have been included to reflect royalty interests Petro-Canada has in various properties.*

[3] *Proved reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those proved reserves that are expected to be recovered from existing wells or facilities. Proved undeveloped reserves are proved reserves which are not recoverable from existing wells or facilities, but that are expected to be recovered through additional development drilling or through the upgrading of existing or additional new facilities.*

[4] *After deduction of a 20 per cent royalty, Petro-Canada receives crude oil to recover costs incurred on behalf of Petro-Canada and* SONATRACH, *the Algerian state oil company. The remaining production is shared between Petro-Canada and* SONATRACH, *varying with the level of production. The total share accruing to Petro-Canada cannot exceed 49 per cent of the gross production volumes.*

SUPPLEMENTAL INFORMATION

OIL AND GAS LANDHOLDINGS (GROSS/NET)[1]

(millions of acres)	DEVELOPED[2]				UNDEVELOPED[2]				TOTAL			
	1995		1994		1995		1994		1995		1994	
	Gross[1]	*Net*[1]	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*
CANADA												
Conventional Western Canada	2.1	0.9	2.3	1.1	1.5	1.0	1.1	0.7	3.6	1.9	3.4	1.8
Oil Sands	0.1	—	0.1	—	0.7	0.2	0.8	0.2	0.8	0.2	0.9	0.2
East Coast Offshore	—	—	—	—	0.7	0.2	0.9	0.4	0.7	0.2	0.9	0.4
Other Frontier[3]	—	—	—	—	7.2	6.1	11.2	10.1	7.2	6.1	11.2	10.1
INTERNATIONAL[4]	—	—	—	—	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
PETRO-CANADA TOTAL	2.2	0.9	2.4	1.1	12.1	9.5	16.0	13.4	14.3	10.4	18.4	14.5

[1] *Gross acres includes the interests of others, while net acres excludes the interests of others.*
[2] *Developed lands are areas capable of production. Undeveloped lands are areas with rights to explore.*
[3] *Exploration is not currently permitted in the Eastern Arctic or off the West Coast of Canada.*
[4] *International landholdings are in Algeria.*

PRINCIPAL RESERVE AND PRODUCTION LOCATIONS

CONVENTIONAL CRUDE OIL FIELDS	PROVED RESERVES BEFORE ROYALTIES AT DECEMBER 31, 1995 *(millions of barrels)*	PER CENT OF TOTAL PROVED RESERVES	AVERAGE 1995 DAILY PRODUCTION BEFORE ROYALTIES *(thousands of barrels)*	PER CENT OF TOTAL 1995 OIL PRODUCTION
Valhalla, Alberta	32.9	30	11.3	25
Pembina, Alberta	21.2	19	2.9	7
Golden Lake, Saskatchewan	8.4	8	2.8	6
Boundary Lake, British Columbia	8.0	7	1.5	3
Bellshill Lake, Alberta	7.4	7	6.4	14
Cactus Lake, Saskatchewan	4.9	4	1.7	4
Shekilie, Alberta	4.2	4	1.1	3
Neutral Hills, Alberta	3.7	3	2.0	4
Utikuma, Alberta	2.6	2	3.5	8
Other	17.3	16	11.3	26
Total	110.6	100	44.5	100

The reserves and production data in these tables do not include natural gas liquids.

SUPPLEMENTAL INFORMATION

NATURAL GAS FIELDS	PROVED RESERVES BEFORE ROYALTIES AT DECEMBER 31, 1995 *(billions of cubic feet)*	PER CENT OF TOTAL PROVED RESERVES	AVERAGE 1995 DAILY PRODUCTION BEFORE ROYALTIES *(millions of cubic feet)*	PER CENT OF TOTAL 1995 GAS PRODUCTION
Hanlan, Alberta	275	13	72	13
Jedney, British Columbia	227	11	41	8
Wildcat Hills, Alberta	146	7	30	5
Ricinus, Alberta	127	6	32	6
Kaybob, Alberta	121	6	33	6
Brazeau, Alberta	119	6	9	2
Medicine Hat, Alberta	116	6	26	5
Gilby, Alberta	114	6	42	8
Yoyo, British Columbia	107	5	43	8
Laprise Creek, British Columbia	100	5	30	5
Other	613	29	188	34
Total	2 065	100	546	100

REFINING BY LOCATIONS

Petro-Canada owns and operates three refineries, in Edmonton, Montreal and Oakville, Ontario. The refineries produce a full slate of refined petroleum products, including gasolines, diesel fuels, heating oils, aviation fuels, asphalts and petrochemical feedstocks. Refining units at Port Moody, British Columbia, and crude oil and fuel processing units at Mississauga, Ontario, were permanently shut down in 1993, reducing total capacity by 12 500 cubic metres per day.

The Company also owns and operates a lubricants plant in Mississauga, Ontario, which produces base oils, motor oils and specialty lubricants and greases, using feedstock from the Oakville and Montreal refineries.

(thousands of cubic metres)	AVERAGE VOLUMES OF CRUDE OIL PROCESSED PER CALENDAR DAY [1] 1995	1994	1993	DAILY RATED CAPACITY AS AT DECEMBER 31,[2] 1995
Edmonton, Alberta	17.5	17.3	15.5	18.4
Montreal, Quebec	13.0	12.2	11.2	14.2
Oakville, Ontario	11.5	12.6	13.4	12.8
Port Moody, British Columbia	—	—	1.3	—
Total	42.0	42.1	41.4	45.4

[1] *For refineries which closed part way through the year, average daily volumes are calculated as if the refinery had operated all year.*

[2] *Daily rated capacity is based on calendar days and definite specifications as to types of crude oil, the products to be obtained and the refinery process required. Variations in these factors may result in actual capacity being higher or lower than rated capacities.*

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES

The Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada, which differ in some respects from those applicable in the United States. The significant differences in accounting principles as they pertain to the accompanying consolidated financial statements are described in Note 25 to the Consolidated Financial Statements.

A Statistical Supplement to this annual report, which is available on request (see inside back cover), also includes disclosures in accordance with the United States Financial Accounting Standards Board Statement No. 69 ("Disclosures About Oil and Gas Producing Activities").

FIVE YEAR FINANCIAL AND OPERATING SUMMARY

(stated in millions of dollars, unless otherwise indicated)

	1995	1994	1993	1992	1991
CONSOLIDATED					
Revenue	$ 4 820	$ 4 758	$ 4 629	$ 4 747	$ 4 986
Expenses	4 450	4 322	4 295	4 573	5 191
Unusual items	—	51	—	(121)	(770)
Provision for (recovery of) income taxes	174	225	174	48	(372)
Net earnings (loss)	$ 196	$ 262	$ 160	$ 5	$ (603)
Cash flow	705	701	631	516	291
Total assets	6 488	6 076	5 696	5 514	6 198
Average capital employed	5 116	4 760	4 497	4 793	5 791
Operating return on capital employed *(in 1995 before organizational restructuring charge) (per cent)*	5.7	5.8	4.8	3.1	(0.5)
Return on capital employed *(per cent)*	4.9	6.7	4.8	1.5	(8.2)
Cash flow return on capital employed *(per cent)*	14.8	15.9	15.3	12.2	7.2
Debt	1 381	1 259	1 205	1 108	1 802
Debt to debt plus equity *(per cent)*	30.9	29.9	30.7	29.9	42.4
Debt to cash flow *(times)*	2.0	1.8	1.9	2.1	6.2
Expenditures on property, plant and equipment and exploration	853	702	609	457	653
Employees *(number at year end)*					
Petro-Canada	4 567	4 871	5 029	5 329	6 213
Subsidiaries	1 079	1 338	2 290	2 931	3 311
Total	5 646	6 209	7 319	8 260	9 524
SHAREHOLDERS' DATA					
Weighted average number of common shares outstanding *(millions)*	246.7	246.7	246.5	217.1	194.1
Common shares outstanding at year end *(millions)*	246.7	246.7	246.5	246.5	215.3
Publicly held common shares at year end *(millions)*	197.3	73.4	73.3	73.2	42.0
Share prices *(dollars)*[2]					
– at year end	15¾	11⅛	12	8⅛	9½
– range during the year	10⅞-15⅞	10¾-14⅞	7¼-14	7⅞-10⅞	9-13¼
Shares traded *(millions)*[3]	65.4	45.6	83.7	27.0	32.3
Book value per share	12.53	11.94	11.04	10.52	11.02
UPSTREAM SECTOR					
Earnings from operations	$ 153	$ 153	$ 114	$ 119	$ 33
Gains on asset sales	6	19	1	24	—
Unusual items	—	21	—	—	(95)
Net earnings (loss)	$ 159	$ 193	$ 115	$ 143	$ (62)
Cash flow	477	448	376	391	338
Expenditures on property, plant and equipment and exploration					
Exploration and development	$ 240	$ 209	$ 183	$ 106	$ 221
Hibernia development	239	234	165	93	62
Other	108	84	66	146	75
	$ 587	$ 527	$ 414	$ 345	$ 358

FIVE YEAR FINANCIAL AND OPERATING SUMMARY

(stated in millions of dollars, unless otherwise indicated)

	1995	1994	1993	1992	1991
UPSTREAM SECTOR *(continued)*					
DAILY PRODUCTION *(net, before royalties)*					
Crude oil and field liquids *(thousands of barrels)*	79.4	73.3	79.8	79.8	92.5
Natural gas *(excluding injectants, millions of cubic feet)*	546	540	562	507	508
Ethane and natural gas liquids production from straddle plants *(thousands of barrels)*	37.5	36.8	40.8	36.4	34.0
Average sales prices					
Crude oil and field liquids *(dollars per barrel)*	21.69	19.60	18.83	19.65	19.21
Natural gas *(dollars per thousand cubic feet)* [4]	1.32	1.92	1.74	1.42	1.53
PROVED RESERVES *(net, before royalties)*					
Crude oil and field liquids *(millions of barrels)*	423	411	389	417	423
Natural gas *(trillions of cubic feet)*	2.1	2.1	2.3	2.4	2.7
OIL AND GAS LANDHOLDINGS (gross/net) *(millions of acres)*	14.3/10.4	18.4/14.5	20.3/15.3	29.1/17.8	32.3/20.1
WELLS DRILLED (gross/net)					
Oil	112/69	129/90	165/100	49/25	36/9
Natural gas	161/98	160/89	196/87	41/6	64/20
Oil sands	—	—	2/1	—	—
Dry	29/13	34/14	24/10	15/4	19/8
Total	302/180	323/193	387/198	105/35	119/37
PROPANE					
Propane sales *(millions of litres)*	1 126	1 148	1 213	1 215	1 234
DOWNSTREAM SECTOR					
Earnings (loss) from operations	$ 160	$ 136	$ 112	$ 27	$ (120)
Gains (losses) on asset sales	1	2	2	1	8
Unusual items	—	—	—	—	(379)
Net earnings (loss)	$ 161	$ 138	$ 114	$ 28	$ (491)
Cash flow	305	295	291	201	16
Expenditures on property, plant and equipment	254	169	190	110	288
Petroleum product sales *(thousands of cubic metres per day)*	41.6	41.5	41.3	43.0	41.3
Retail outlets at year end	1 871	2 029	2 220	2 630	3 150
Refinery crude capacity at year end *(thousands of cubic metres per day)*	45.4	45.1	45.1	57.6	57.6
Average refinery utilization *(per cent)* [5]	93	93	79	72	74

[1] *Certain reclassifications have been made to the figures previously reported to reflect subsequent changes in reporting presentation.*
[2] *Share prices are for trading on the Toronto Stock Exchange.*
[3] *Total shares traded on the Toronto, Montreal, New York, Vancouver and Alberta stock exchanges.*
[4] *Average gas price is before deduction of British Columbia gathering and processing charges.*
[5] *Average refinery utilization takes into account, where applicable, changes in refinery crude capacity that occurred during the year.*

QUARTERLY FINANCIAL AND STOCK TRADING INFORMATION

(unaudited, stated in millions of dollars unless otherwise indicated)

	1995				1994			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
REVENUE								
Operating	$ 1 150	$ 1 177	$ 1 181	$ 1 231	$ 1 081	$ 1 109	$ 1 221	$ 1 230
Investment and other income	19	21	14	27	30	23	40	24
	1 169	1 198	1 195	1 258	1 111	1 132	1 261	1 254
EXPENSES								
Crude oil and product purchases	572	607	563	619	476	567	607	623
Producing, refining and marketing	319	303	301	319	323	314	320	332
General and administrative	137	54	53	64	54	42	52	61
Exploration	13	7	8	15	5	7	10	12
Depreciation, depletion and amortization	85	85	83	85	83	86	84	94
Taxes other than income taxes	19	17	16	16	16	21	19	15
Interest on long-term debt	21	20	20	20	23	22	21	22
Other interest	1	1	1	6	2	3	3	3
	1 167	1 094	1 045	1 144	982	1 062	1 116	1 162
GAIN ON SALE OF TROCANA RESOURCES	—	—	—	—	—	51	—	—
EARNINGS BEFORE INCOME TAXES	2	104	150	114	129	121	145	92
PROVISION FOR INCOME TAXES	10	44	71	49	57	61	69	38
NET EARNINGS (LOSS)	$ (8)	$ 60	$ 79	$ 65	$ 72	$ 60	$ 76	$ 54
CASH FLOW	$ 130	$ 178	$ 210	$ 187	$ 189	$ 142	$ 189	$ 181
SEGMENTED EARNINGS								
Earnings from operations								
Upstream	$ 40	$ 37	$ 35	$ 41	$ 39	$ 31	$ 46	$ 37
Downstream	22	35	62	41	47	20	35	34
Shared Services	(20)	(16)	(17)	(19)	(21)	(13)	(16)	(20)
Organizational Restructuring	(52)	—	—	—	—	—	—	—
	(10)	56	80	63	65	38	65	51
Unusual item and gains (losses) on asset sales	2	4	(1)	2	7	22	11	3
Net earnings (loss)	$ (8)	$ 60	$ 79	$ 65	$ 72	$ 60	$ 76	$ 54
SHARE INFORMATION *(dollars per common share)*								
Net earnings (loss)	(0.03)	0.24	0.32	0.26	0.29	0.25	0.30	0.22
Cash flow	0.53	0.72	0.85	0.76	0.77	0.57	0.77	0.73
Dividends paid	0.05	0.05	0.05	0.05	0.0325	0.0325	0.0325	0.05
Share price [1]								
- High	12⅛	13⅜	15	15⅞	14⅞	14¾	12¾	12⅝
- Low	10⅞	11⅞	12⅞	13⅞	11⅝	11⅛	10¾	10⅞
- Close (end of period)	12	13	14½	15¾	13⅝	11½	11⅞	11⅜
Shares traded *(millions)* [2]	7.6	16.0	23.1	18.7	12.3	11.7	11.2	10.4
Instalment receipts [1]								
- High			7¼	7⅞				
- Low			6⅜	5⅞				
- Close (end of period)			6⅝	7⅞				
Receipts traded *(millions)* [2]			57.9	56.9				

[1] *Share and receipt prices are for trading on the Toronto Stock Exchange.*

[2] *Total traded on the Toronto, Montreal, New York, Vancouver and Alberta stock exchanges.*

PETRO-CANADA'S OUTSTANDING SHARES

At December 31, 1995 Petro-Canada's public float was 197.3 million shares, represented by 123.9 million instalment receipts and 73.4 million shares. In September 1995, the Government of Canada sold 123.9 million shares on an instalment basis, for a total of $14.625 each, according to the following schedule: a first instalment, paid September 22, 1995, of $ 6.125; a second instalment, payable on or before September 23, 1996, of $4.25; and a final instalment, payable on or before March 24, 1997, of $4.25. A receipt holder receives full dividends and voting rights while paying for the shares over a period of time.

TRANSFER AGENT AND REGISTRAR

In Canada, Petro-Canada's transfer agent and registrar is The R-M Trust Company. Share certificates may be transferred at R-M Trust's corporate trust offices in Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver. Questions relating to share certificates, dividends and estate settlements should be directed to R-M Trust's corporate trust offices in Calgary:

The R-M Trust Company
600 The Dome Tower
333 – 7th Avenue S.W.
Calgary, Alberta, Canada T2P 2Z1
Telephone toll free: (800) 387-0825

In the United States, Petro-Canada's transfer agent and registrar is The Chemical Mellon Company, which can be contacted at:

Chemical Mellon Shareholder Services
85 Challenger Road
Overpeck Center
Ridgefield Park, NJ 07660
Telephone toll free: (800) 387-0825

ANNUAL MEETING

The annual meeting of shareholders will be held at 11:00 a.m. local time on Tuesday, April 30, 1996, at:

Crystal Ballroom, Palliser Hotel
133 – 9th Avenue S.W.
Calgary, Alberta

STOCK EXCHANGE LISTINGS AND SYMBOLS

Toronto, Montreal, New York, Vancouver, Alberta and Winnipeg
Canadian exchanges: PCA, PCA.IR
New York: PCZ, PCZ.PP

DIVIDENDS

Petro-Canada's Board of Directors has adopted a policy of paying quarterly dividends of $0.05 ($0.20 per annum) per common share or instalment receipt. The Board reviews the dividend policy in light of the Company's financial position, its financing requirements for growth and other factors.

Dividends are normally paid on or about the first working day of the months of January, April, July and October. The record dates are normally set approximately four weeks ahead of the dividend payment date. Dividends can be deposited directly to shareholders' bank accounts. If this service is desired, please contact the transfer agent and registrar.

INVESTOR RELATIONS AND SHAREHOLDER COMMUNICATIONS

Petro-Canada's Investor Relations staff may be contacted by writing to or calling:

Petro-Canada Investor Relations
P.O. Box 2844
Calgary, Alberta, Canada T2P 3E3
Telephone (403) 296-4040 Fax (403) 296-3061

INFORMATION FOR INVESTORS OUTSIDE OF CANADA

Dividends and interest payments made to residents in countries with which Canada has a bilateral tax treaty are subject to Canadian non-resident withholding tax of 15 per cent. The majority of countries are in this category. For U.S. residents, these rates will be reduced for 1996 to 10 per cent on dividends and six per cent on interest. There is no Canadian tax on gains from the sale of shares or debt instruments owned by non-residents not carrying on business in Canada. Estate taxes or succession duties are not levied by any level of government in Canada. (This summary is not intended as tax advice; shareholders may wish to consult a tax advisor with respect to particular circumstances.)

DUPLICATE REPORTS

While we try to avoid duplicate mailings of annual reports and other shareholder materials, shareholders with more than one unregistered account may receive duplicates. Registered shareholders with more than one account may contact the transfer agent and registrar to eliminate duplicate mailings.

INVESTOR RELATIONS INFORMATION SERVICE (IRIS)

(403) 296-IRIS or (403) 296-4747
For information on how to use this on-line service, please call (403) 296-4040.

Petro-Canada's Executive Leadership Team (left to right): Jim Stanford, Wesley Twiss, Norm McIntyre, Jim Pantelidis.

BOARD OF DIRECTORS

James T. Black, C.M., F.C.A.[1]
Chairman of the Board
Petro-Canada
Niagara-on-the-Lake, Ontario

James M. Stanford[1]
President and
Chief Executive Officer
Petro-Canada
Calgary, Alberta

Gail Cook-Bennett[2]
Vice Chair
Bennecon Ltd.
Etobicoke, Ontario

John F. Cordeau[2]
Partner
Bennett Jones Verchere
Barristers and Solicitors
Calgary, Alberta

Purdy Crawford
Chairman
Imasco Ltd.
Toronto, Ontario

Claude Fontaine, Q.C.[1,2]
Senior Partner
Ogilvy Renault
Barristers and Solicitors
Town of Mount Royal, Quebec

Thomas E. Kierans
President and
Chief Executive Officer
C.D. Howe Institute
Toronto, Ontario

Brian F. MacNeill[2]
President and
Chief Executive Officer
IPL Energy Inc.
Calgary, Alberta

Gerald J. Maier[1]
Chairman
TransCanada PipeLines Limited
Calgary, Alberta

Guylaine Saucier, C.M., F.C.A.[2]
Chairman
Canadian Broadcasting Corporation
Montreal, Quebec

William W. Siebens[1]
President and
Chief Executive Officer
Candor Investments Ltd.
Calgary, Alberta

SENIOR OFFICERS

James T. Black
Chairman of the Board

James M. Stanford
President and
Chief Executive Officer

Norman F. McIntyre
Executive Vice-President

James Pantelidis
Executive Vice-President

Wesley R. Twiss
Executive Vice-President

[1] *Executive Committee member*

[2] *Audit Committee member*

PETRO-CANADA

PETRO-CANADA

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1995

March 7, 1996

HIGHLIGHTS

(millions of dollars, unless otherwise indicated)	**1995**	1994[1]	1993[1]
FINANCIAL			
Earnings from operations before restructuring	241	219	157
Organizational restructuring	(52)	—	—
Gains on asset sales	7	22	3
Unusual item	—	21	—
Net earnings	196	262	160
Per share ($)	0.79	1.06	0.65
Cash flow*	705	701	631
Per share ($)	2.86	2.84	2.56
Return on capital employed *(per cent)*	4.9	6.7	4.8
Operating return on capital employed *(per cent)*	4.7	5.8	4.8
Cash flow return on capital employed *(per cent)*	14.8	15.9	15.3
Average capital employed	5 116	4 760	4 497
Debt	1 381	1 259	1 205
Debt to cash flow *(times)*	2.0	1.8	1.9
Debt to debt plus equity *(per cent)*	30.9	29.9	30.7
OPERATING			
Daily oil equivalent production[2] *(thousands of barrels)*	134	127	136
Daily sales of refined products *(thousands of cubic metres)*	41.6	41.5	41.3
Average refinery utilization *(per cent)*	93	93	79

1 Restated to reflect recommendations of the CICA requiring the use of the proportionate consolidation method of accounting for interests in joint ventures.

2 10 000 cubic feet of natural gas equal 1 barrel of oil.

** Cash flow from operations before changes in non-cash working capital items.*

CORPORATE PROFILE

Petro-Canada is the largest Canadian-owned oil and gas company and a leader in the Canadian petroleum industry. The Company has two operating sectors. The Upstream sector explores for, produces and markets crude oil, natural gas and natural gas liquids. The Downstream sector refines crude oil and distributes and markets petroleum products.

CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and related Auditors' Report dated January 31, 1996. The Consolidated Financial Statements are available on pages 30 to 44 of the Company's 1995 Annual Report. A glossary of financial terms and ratios is available on page 20 of this document. All dollar amounts are in Canadian dollars, unless otherwise stated.

SUMMARY

The Company recorded net earnings of $196 million ($0.79 per share) in 1995, compared with $262 million ($1.06 per share) in 1994 and $160 million ($0.65 per share) in 1993. Included in the 1995 results is a $52 million after-tax charge to earnings and a $28 million reduction in cash flow[1] related to an organizational restructuring. Excluding the organizational restructuring charge, Petro-Canada achieved record performance in 1995, with earnings from operations of $241 million ($0.98 per share). Earnings in 1995 included gains on the sale of assets of $7 million, compared with $43 million in 1994 and $3 million in 1993. Cash flow totalled $705 million in 1995, up from $701 million in 1994 and $631 million in 1993.

The 1995 results reflect higher prices and production volumes of crude oil and natural gas liquids and improved margins in the natural gas liquids business. Hedging afforded some protection from sharply lower natural gas prices, while in the Downstream, reduced costs and an improved sales mix offset the negative business environment. Operating return on capital employed was 5.7 per cent in 1995 before deducting the organizational restructuring charge of $52 million. The Company's return on capital employed was 4.9 per cent, compared with 6.7 per cent in 1994 and 4.8 per cent in 1993. Cash flow return on capital employed was 14.8 per cent, down from 15.9 per cent in 1994 and 15.3 per cent in 1993. The 1995 return measures were negatively affected by increased capital employed related mainly to Hibernia.

At December 31, 1995, the Company's total debt was $1 381 million, compared with $1 259 million at year-end 1994 and $1 205 million at the end of 1993. The change in total debt in 1995 was due to an increase in Hibernia-related Government-guaranteed debt of $150 million, offset by a $26 million revaluation of U.S. dollar denominated debt resulting from a strengthening of the Canadian dollar. Petro-Canada's debt to debt plus equity and debt to cash flow ratios remained close to the Company's stated targets, measuring 30.9 per cent and 2.0 times, respectively.

In September 1995, the Government of Canada sold 123.9 million common shares, reducing its ownership in the Company to 20 per cent. Petro-Canada's public float rose to 197.3 million shares, with shares sold in Canada, the United States and Europe. Valued at $1.8 billion, this was the largest oil and gas share issue in Canada in 1995, and at the time, was the largest Canadian equity offering ever. Concurrent with the offering, the Company listed its common shares and instalment receipts for trading on the New York Stock Exchange.

In the Upstream sector, for 1996 and 1997, management expects prices for crude oil to decline slightly, while natural gas prices are expected to remain at depressed levels. The sector will continue to focus on achieving cost reductions and greater operating efficiencies while managing its exposure to the business environment.

1 In this Management's Discussion and Analysis "cash flow" means cash flow from operations before changes in non-cash working capital items.

Investments in the Upstream sector will focus on growth opportunities and on optimizing core operations. Hibernia, Algeria, Terra Nova and natural gas reserves and production growth will remain high priorities. The Company will also continue to evaluate other potential value-creating opportunities.

In a relatively flat business environment, the Downstream sector expects to continue to improve performance as a result of cost reductions and, in 1997, the expansion of the lubricants facility. Petro-Canada will focus on maintaining high levels of reliability and utilization at its refineries, upgrading the marketing network, raising retail throughputs and increasing non-petroleum contribution.

While pursuing these growth opportunities, Petro-Canada will preserve financial flexibility and maintain the strength of its balance sheet.

1995 STRATEGIES AND OBJECTIVES

Company

- Increase profitability while maintaining financial flexibility
- Reduce costs and improve operational efficiencies
- Maintain debt to cash flow ratio at or below 2.0 and debt to debt plus equity at 30 per cent

Upstream

- Develop offshore oil reserves on the East Coast
- Increase natural gas reserves and production
- Develop oil reserves in Algeria for production in 1996
- Exploit and rejuvenate existing Western Canada oil reserves for cash flow
- Maximize profitability of natural gas liquids business

Downstream

- Maintain high reliability, utilization and efficiency of refining operations
- Build on strong brand awareness and continue to increase productivity of marketing network
- Expand lubricants manufacturing capacity and enter new markets

ORGANIZATIONAL RESTRUCTURING AND RE-ENGINEERING

To improve strategic effectiveness, operational efficiencies and profitability, the Company announced an organizational restructuring in early 1995. The number of management levels was reduced, staff functions were consolidated and tighter linkage was created between business units and the overall goals of the Company. Under the new structure, business units have greater autonomy, enabling senior executives to focus on strategy development and financial management, with less involvement in day-to-day operational activity.

Support services, including human resources, administration, information systems, law, communications, accounting, finance and planning were consolidated in three Shared Services units and business processes were simplified. Certain functions determined to be non-core to the Company's business, including internal audit, elements of information systems, travel and personal credit card processing, have been or will be outsourced.

The restructuring is expected to be substantially complete by year-end 1996, by which time a total of up to 700 positions will have been eliminated. As a result of the restructuring, Petro-Canada recorded an after-tax charge to 1995 earnings of $52 million and a reduction in cash flow of $28 million.

In addition, the Company is re-engineering many of its business processes. In the Upstream sector, the focus is on reducing operating costs and improving performance measures to a level exceeding

average industry benchmarks. This initiative includes ICG Propane, where operations are being consolidated and automated. In the Downstream, re-engineering initiatives have been undertaken in the refining, supply and marketing areas of operations. In the refining and supply functions, the emphasis is on increasing the reliability and utilization of the refineries while improving the quality and efficiency of maintenance shutdowns. In the marketing function, the focus is on improving business processes in order to increase efficiencies within the system, including deliverability and distribution of products. Re-engineering initiatives in Shared Services are primarily focused on human resources and financial processes, and supply chain management.

RESULTS OF OPERATIONS

Petro-Canada's financial results are significantly influenced by refined product margins, crude oil and natural gas prices, the U.S./Canadian dollar exchange rate and the demand for natural gas and refined petroleum products.

Business Conditions in 1995

Financial performance in the upstream industry is influenced by the price levels of both crude oil and natural gas. In 1995, international crude oil markets rebounded in the first half of the year, reaching an average price of U.S. $18.85 per barrel for West Texas Intermediate (WTI). The average WTI price for crude oil was U.S. $18.40 per barrel, an increase over the 1994 average price of U.S. $17.19. The price of WTI at year-end was U.S. $19.55 per barrel.

The price differential between light and heavy crude oil continued to narrow, averaging $3.62 per barrel, down from $4.29 in 1994. Prices for Canadian light crude oil averaged $24.23 per barrel, relative to $22.21 per barrel in 1994, while prices for Canadian heavy crude averaged $20.61 compared with $17.92 in 1994.

Natural gas prices were volatile throughout 1995, ranging from $1.19 to $1.53 per thousand cubic feet. The Alberta plant gate price for natural gas averaged approximately $1.36 per thousand cubic feet in 1995, compared with $1.90 in 1994. There was continued downward pressure on natural gas pricing throughout 1995, attributable mainly to high storage levels, deliverability constraints and an unseasonably warm winter. A warm summer in the United States and cold weather in November contributed to a slight recovery in prices late in the year. The Alberta average plant gate price for December 1995 was $1.53 per thousand cubic feet.

Volatility characterized the U.S./Canadian dollar exchange rate. The Canadian dollar averaged U.S. $0.73, unchanged from 1994, but ranged from a high of U.S. $0.74 to a low of U.S. $0.71 as political uncertainty in Canada concerned investors.

In the downstream industry, the key external factors affecting financial results are feedstock costs, overall demand for refined petroleum products and utilization of refining capacity. Canadian demand for petroleum products increased approximately 1.5 per cent in 1995. Average refinery utilization was 90 per cent in 1995 and 91 per cent in 1994.

Sensitivities Affecting Pre-tax Cash Flow

The following table shows the effects that changes in certain factors would have had on Petro-Canada's 1995 pre-tax cash flow had these changes occurred. These calculations are based on external business conditions and production and sales volumes realized by the Company in 1995.

FACTOR	1995 AVERAGE	INCREASE	APPROXIMATE INCREASE (DECREASE) IN PRE-TAX CASH FLOW (MILLIONS OF CANADIAN DOLLARS)[1]
UPSTREAM SECTOR			
WTI benchmark crude oil price	U.S. $18.40 per barrel	U.S. $1.00 per barrel	27
Price received for natural gas	$1.32 per thousand cubic feet	$0.10 per thousand cubic feet	14[2]
Production of conventional crude oil	44 500 barrels per day	1 000 barrels per day	6
Production of natural gas available for sale	546 million cubic feet per day	10 million cubic feet per day	4
DOWNSTREAM SECTOR			
Average sale price of gasoline[3]	26 cents per litre	1 cent per litre	69
Average sale price of middle distillates[3,4]	22 cents per litre	1 cent per litre	56
Petroleum products gross margin[5]	5.3 cents per litre	0.1 cent per litre	15
Differential light crude oil/ heavy crude oil	$3.64 per barrel	$1.00 per barrel	20
CORPORATE			
U.S./Canadian dollars exchange rate	U.S. $0.73	U.S. $0.01	(8)

1 *The impact of a change in one factor may be compounded or offset by changes in the factors noted and in other factors. This table does not consider the impact of any interrelationship between the factors. The applications of these factors may not necessarily lead to an accurate prediction of future results of operations. The Company undertakes risk management initiatives from time to time which may affect these sensitivities.*

2 *Net of decrease of $3 million in pre-tax cash flow from straddle operations.*

3 *Average sale price of gasoline and distillates does not include federal excise taxes and provincial motor fuel taxes.*

4 *Includes diesel oils, heating oils and aviation jet fuels.*

5 *Revenue minus cost of sales.*

Accounting Change

In 1995, the Company adopted new recommendations of the Canadian Institute of Chartered Accountants (CICA) which require the use of the proportionate consolidation method of accounting for interests in joint ventures, previously accounted for on the equity method. This change, which is described in Note 3 to the Consolidated Financial Statements, has been applied retroactively and the financial statements of prior periods have been restated. Under the new method, the Company records its proportionate share of assets, liabilities, debt, revenue and expenses but there is no change to net earnings or retained earnings from that reported previously under the equity method. The most significant impact of this change was an increase, as at December 31, 1995, in long-term debt of $142 million and an increase in property, plant and equipment of $174 million due to the proportionate consolidation of the Petro-Canada Centre, an office complex in Calgary, which is 50 per cent owned by Petro-Canada.

(MILLIONS OF DOLLARS)

EARNINGS FROM OPERATIONS ROSE $22 MILLION

** Excludes organizational restructuring*

CONSOLIDATED RESULTS

CONSOLIDATED FINANCIAL RESULTS
(millions of dollars, unless otherwise indicated)

	1995	1994[1]	1993[1]
Revenue	4 820	4 758	4 629
Earnings from operations before restructuring	241	219	157
Organizational restructuring	(52)	—	—
Gains on asset sales	7	22	3
Gain on sale of TroCana Resources	—	21	—
Net earnings	196	262	160
Net earnings per share *($)*	0.79	1.06	0.65
Cash flow2	705	701	631
Cash flow per share *($)*	2.86	2.84	2.56
Return on capital employed *(per cent)*	4.9	6.7	4.8
Cash flow return on capital employed *(per cent)*	14.8	15.9	15.3
Operating return on capital employed *(per cent)*	4.7	5.8	4.8
Average capital employed	5 116	4 760	4 497

1 *Restated to reflect recommendations of the CICA requiring the use of the proportionate consolidation method of accounting for interests in joint ventures previously accounted for on the equity method.*

2 *In this Management's Discussion and Analysis, "cash flow" means cash flow from operations before changes in non-cash working capital items.*

(MILLIONS OF DOLLARS)

CASH FLOW INCREASED SLIGHTLY

1995 COMPARED WITH 1994

The Company recorded net earnings of $196 million ($0.79 per share) in 1995, compared with $262 million ($1.06 per share) in 1994. Included in the 1995 results is a $52 million after-tax charge to earnings and a $28 million reduction in cash flow related to an organizational restructuring. Earnings in 1995 included gains on the sale of assets of $7 million, compared with $43 million in 1994. Cash flow totalled $705 million in 1995, up from $701 million in 1994.

In the Upstream sector, higher prices and production volumes of crude oil and liquids, along with improved margins in the natural gas liquids business offset significantly lower natural gas prices. The Downstream sector had its second consecutive year of record performance, reflecting continued success in cost reduction and an improved sales mix.

Crude oil and product purchases were $2 361 million in 1995, an increase of $88 million compared with the prior year resulting mainly from higher crude oil prices. Operating and overhead expenses, excluding the organizational restructuring charge, were $1 463 million, down from $1 498 million a year earlier.

Cash flow return on capital employed decreased to 14.8 per cent in 1995, down from 15.9 per cent in 1994. Similarly, the return on capital employed declined to 4.9 percent from 6.7 per cent in 1994. In 1995, these return measures were affected by the restructuring charge, as well as increased capital employed relating to the Company's investment in Hibernia and other growth projects.

(MILLIONS OF DOLLARS)

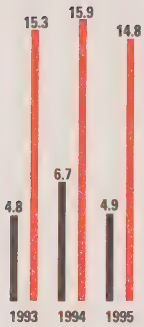
OPERATING AND OVERHEAD COST REDUCTIONS CONTINUED

** Excludes organizational restructuring*

1994 COMPARED WITH 1993

Petro-Canada recorded higher earnings and cash flow in 1994, primarily due to higher upstream product prices and greater operating efficiencies.

Consolidated net earnings were $262 million ($1.06 per share), a $102 million increase over the $160 million ($0.65 per share) earned in 1993. Gains on asset sales and the gain on the sale of TroCana Resources contributed a total of $43 million ($0.17 per share) to earnings in 1994. Gains on asset sales were $3 million ($0.01 per share) in 1993. Cash flow was $701 million in 1994 ($2.84 per share), an improvement of $70 million over the prior year. The major reasons for this improved performance were higher prices for the Company's natural gas and crude oil production, continued cost management and greater downstream efficiencies.



(PER CENT)

RETURN MEASURES AFFECTED BY RESTRUCTURING AND INVESTMENT IN GROWTH IN 1995

■ ROCE
■ CFROCE

The cost of crude oil and product purchases was $2 273 million in 1994, up $65 million or 2.9 per cent over 1993. Partially offsetting this increase was a $41 million reduction in operating and overhead expenses to $1 498 million.

In 1994 the Company completed the asset rationalization program initiated in 1992, which consolidated Petro-Canada's conventional Upstream assets into 24 strategic areas in Western Canada and its Downstream marketing operations into approximately 2 000 retail sites and 200 wholesale operations.

Cash flow return on capital employed increased to 15.9 per cent in 1994 from 15.3 per cent in 1993 and the operating return on capital employed rose to 5.8 per cent in 1994 from 4.8 per cent a year earlier.

UPSTREAM SECTOR

UPSTREAM SECTOR RESULTS

(millions of dollars, unless otherwise indicated)	**1995**	1994	1993
Revenue including inter-segment sales	1 343	1 420	1 365
Earnings from operations	153	153	114
Gains on asset sales	6	19	1
Gain on the sale of TroCana Resources	—	21	—
Net earnings	159	193	115
Cash flow	477	448	376
Operating return on capital employed *(per cent)*	5.6	6.1	4.7
Return on capital employed *(per cent)*	5.8	7.7	4.8
Cash flow return on capital employed *(per cent)*	17.4	17.8	15.7
Average capital employed	2 746	2 518	2 402

1995 Compared with 1994

(DOLLARS PER BARREL)

PRICES RECEIVED FOR CRUDE OIL AND LIQUIDS ROSE STEADILY

The Upstream sector benefited from stronger crude oil and natural gas liquids prices, higher production volumes and improved margins in the natural gas liquids business due to lower natural gas feedstock and operating costs. While natural gas hedging programs afforded some protection, earnings were negatively affected by a sharp decline in prices received for natural gas. Earnings from operations were $153 million, the same as in 1994. Gains on asset sales totalled $6 million compared with $40 million in 1994.

Daily production of crude oil and field natural gas liquids averaged 79 400 barrels in 1995, up 6 100 barrels from 1994. Conventional crude oil and liquids accounted for 55 100 barrels of daily production, a nine per cent increase from 1994. Further waterflood development at Valhalla was the

(DOLLARS PER Mcf)

PRICE RECEIVED FOR NATURAL GAS DROPPED SHARPLY

(MMcf/d)

NATURAL GAS PRODUCTION UP SLIGHTLY

(MILLIONS OF DOLLARS)

UPSTREAM EARNINGS FROM OPERATIONS STEADY

main contributor to these higher conventional production volumes. Application of improved technology contributed to an increase in Petro-Canada's share of Syncrude production to 24 300 barrels per day from 22 900 barrels in 1994. Daily production of ethane and natural gas liquids from straddle plants increased to 37 500 from 36 800 barrels in 1994 as the effect of a shutdown-free year more than offset the impact of the sale of certain production assets in Taylor, British Columbia.

Petro-Canada's natural gas production, excluding injectants, averaged 546 million cubic feet per day, slightly higher than the 540 million cubic feet per day in 1994. Natural gas production was adversely affected by several factors including restricted pipeline capacity in British Columbia, price-driven temporary shut-ins and technical difficulties at certain locations. A plant being built in the Jedney area to process the Company's natural gas will alleviate these deliverability problems by 1997.

Reserve additions, extensions, discoveries, revisions and net purchases were 203 billion cubic feet, while the total 1995 natural gas production was 199 billion cubic feet. Year-end natural gas reserves totalled 2.1 trillion cubic feet.

Total reserves of crude oil and field natural gas liquids increased by 12 million barrels in 1995 to 423 million barrels. This increase was largely attributable to recognizing 15 million barrels of proved reserves in Algeria and to a positive revision of 14 million barrels at Syncrude, reflecting increased production capability. These factors, in combination with extensions, discoveries, revisions and net purchases, were more than sufficient to replace total annual production of approximately 29 million barrels.

Average finding and development costs for Western Canada conventional oil and natural gas were $7.28 per barrel of oil equivalent in 1995, a significant improvement over the previous two years. In Algeria, finding and development costs were $2.08 per barrel in 1995.

Excluding the effect of the Company's hedging programs, crude oil and field natural gas liquids prices averaged $21.69 per barrel in 1995, compared with $19.60 in the prior year, and prices received by the Company for natural gas averaged $1.32 per thousand cubic feet, down significantly from $1.92 per thousand cubic feet in 1994.

Producing costs for conventional oil and natural gas averaged $5.38 per barrel of oil equivalent in 1995, an increase from $5.22 in 1994. Lower unit producing costs for oil resulting from increased volumes were more than offset by higher gas producing costs related to the Company's natural gas growth strategy.

WESTERN CANADA CONVENTIONAL NETBACKS *(dollars per barrel of oil equivalent)*	**1995**	1994	1993
Crude oil, natural gas and field natural gas liquids price[1]	16.59	18.17	16.82
Royalties	3.01	3.64	3.25
Operating expenses[2]	4.21	4.06	4.24
Other taxes	0.32	0.35	0.32
Netback	9.05	10.12	9.01
Overhead expenses	0.85	0.81	1.06
Netback after overhead expenses	8.20	9.31	7.95

1 10 000 cubic feet of gas equal 1 barrel of oil. Excludes effects of hedging activities.

2 Includes future site restoration provisions.

1994 Compared with 1993

In 1994, the Upstream sector's performance improved, mainly due to higher product prices, gains on asset sales and continued cost management.

Revenue was $1 420 million in 1994, up $55 million from 1993. The sector's net earnings were $193 million compared with $115 million in the prior year. Gains on sales, including the $21 million gain related to the sale of TroCana Resources, were $40 million, versus gains of $1 million in 1993. TroCana produced an average of 6 700 barrels of oil and natural gas liquids and 36 million cubic feet of natural gas per day in 1993.

Daily production of crude oil and natural gas liquids averaged 73 300 barrels in 1994, down from 79 800 barrels a year earlier due to the sale of TroCana. Record production levels at the Syncrude oil sands project raised Petro-Canada's share of production to 22 900 barrels per day from 22 000 barrels a year earlier. Daily production of ethane and natural gas liquids from straddle plants declined to 36 800 barrels from 40 800 barrels in 1993 due to scheduled maintenance.

Petro-Canada's average natural gas production, excluding injectants, was 540 million cubic feet per day in 1994 compared with 562 million cubic feet per day in 1993, reflecting the sale of TroCana Resources.

At December 31, 1994, crude oil and natural gas liquids reserves, including synthetics, were 411 million barrels, 22 million barrels higher than at year-end 1993, while natural gas reserves declined to 2.1 trillion cubic feet at December 31, 1994 from 2.3 trillion cubic feet at year-end 1993.

Excluding the effects of hedging, prices received for crude oil increased four per cent to $19.60 per barrel, while the average natural gas price received increased 10 per cent to $1.92 per thousand cubic feet.

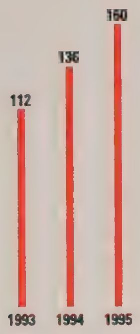
On a barrel of oil equivalent basis, Upstream sector producing costs for conventional oil and natural gas production averaged $5.22 in 1994, a reduction of seven per cent from the previous year.

DOWNSTREAM SECTOR

DOWNSTREAM SECTOR RESULTS

(millions of dollars, unless otherwise indicated)	**1995**	1994[1]	1993[1]
Revenue including inter-segment sales	4 042	3 851	3 814
Earnings from operations	160	136	112
Gains on asset sales	1	2	2
Net earnings	161	138	114
Cash flow	305	295	291
Return on capital employed *(per cent)*	7.9	7.1	6.2
Cash flow return on capital employed *(per cent)*	14.9	15.2	15.9
Average capital employed	2 045	1 940	1 831

1 *Restated to reflect recommendations of the CICA requiring the use of the proportionate consolidation method of accounting for interests in joint ventures previously accounted for on the equity method.*



(MILLIONS OF DOLLARS)

RECORD EARNINGS FROM OPERATIONS FOR DOWNSTREAM

(PER CENT)

REFINERY UTILIZATION AVERAGED 93% IN 1995 DESPITE PLANNED SHUTDOWNS

(MILLIONS LITRES/SITE/YR)

AVERAGE THROUGHPUT PER RETAIL SITE INCREASED 12% IN 1995

1995 Compared with 1994

Earnings from operations rose to $160 million, an increase of $24 million from 1994. Expense reductions, an improved sales mix and higher contribution from the sale of non-petroleum products and services more than offset lower margins. Operating and overhead expenses were reduced to $971 million from $1 001 million in 1994. Gross margins declined slightly in 1995 to 5.3 cents per litre from 5.4 cents a year earlier.

Despite scheduled major maintenance shutdowns at each facility, utilization rates at Petro-Canada's three refineries averaged 93 per cent in 1995, the same as in 1994. Successful implementation of re-engineered business processes, including improved preventative maintenance and refinery shutdown planning processes, contributed to the high reliability and utilization rates in 1995. The Company continues to optimize the use of lower cost heavy crude oil and other feedstocks, taking advantage of the operational flexibility of its refineries.

In 1995, Petro-Canada continued to concentrate on increasing throughput per retail site, achieving an average of 2.8 million litres, an increase of 12 per cent from 2.5 million litres in 1994. Continued implementation of service strategies and more effective utilization of marketing assets contributed to these results. Several retail initiatives were also introduced, including a new site design and Petro-Points, a customer loyalty program. Introduced in October 1995, this program is aimed at building repeat business.

1994 Compared with 1993

The Downstream sector improved its financial performance in 1994, despite a generally unfavourable business environment characterized by volatile crude oil prices and reduced industry margins in most of the country.

Revenue rose to $3 851 million in 1994, benefiting from higher prices received for refined petroleum products and a slight increase in sales volumes to 41.5 thousand cubic metres per day. Higher distillate sales somewhat offset lower gasoline sales and gross margins increased slightly to 5.4 cents per litre from 5.3 cents in 1993.

Earnings from operations for the sector were $136 million, an increase of $24 million over 1993 attributable to higher utilization of refining and marketing assets and a continued focus on cost management. Operating and overhead expenses for the sector were reduced by $24 million in 1994 to $1 001 million. The improvement in the sector's results was achieved despite intense competition and depressed industry margins in Central and Eastern Canada.

In 1994, Petro-Canada's three refineries operated at 93 per cent utilization, compared with 79 per cent in 1993. Average throughput per retail site was 2.5 million litres in 1994, up from 2.2 million litres a year earlier.

SHARED SERVICES

SHARED SERVICES RESULTS
(millions of dollars)

	1995	1994[1]	1993[1]
Revenue	1	10	14
Loss from operations before restructuring	(72)	(70)	(69)
Organizational restructuring	(52)	—	—
Loss from operations	(124)	(70)	(69)
Gain on sale of assets	—	1	—
Net loss	(124)	(69)	(69)
Cash flow	(77)	(42)	(36)

1 *Restated to reflect recommendations of the CICA requiring the use of the proportionate consolidation method of accounting for interests in joint ventures previously accounted for on the equity method.*

1995 Compared with 1994

As part of the organizational restructuring initiated in the first quarter, certain functions common to both the Upstream and Downstream sectors were consolidated within Shared Services. Previously referred to as "Corporate Centre," Shared Services is structured as a cost centre and includes investment income, interest expense and general corporate revenues and expenditures. Total net expenses, consisting mainly of interest and the organizational restructuring charge, were $124 million in 1995, compared with $69 million in 1994. The organizational restructuring increased 1995 net expenses by $52 million and reduced cash flow by $28 million.

1994 Compared with 1993

Total net expenses of $69 million consisted mainly of interest. Shared Services used $42 million in cash flow, compared with $36 million in 1993.

LIQUIDITY AND CAPITAL RESOURCES

SUMMARY OF CHANGES IN FINANCIAL POSITION
(millions of dollars)

	1995	1994[1]	1993[1]
OPERATING ACTIVITIES			
Cash flow	705	701	631
(Increase) decrease in operating working capital and other	(65)	(241)	15
Cash flow from operating activities	640	460	646
INVESTING ACTIVITIES	(791)	(454)	(540)
FINANCING ACTIVITIES AND DIVIDENDS	99	(40)	(59)
(DECREASE) INCREASE IN CASH AND SHORT-TERM INVESTMENTS	(52)	(34)	47

1 *Restated to reflect recommendations of the CICA involving the use of the proportionate consolidation method of accounting for interests in joint ventures previously accounted for on the equity method.*

OPERATING ACTIVITIES

Cash flow increased to $705 million from $701 million in 1994 despite lower net earnings because of an increase in items not affecting cash flow. The significant changes were the reduction of $78 million in the gains on sale of assets and TroCana Resources and $42 million in non-cash charges relating to the organizational restructuring, partially offset by a $45 million reduction in deferred income taxes.

Cash generated from operating activities was $640 million, an increase of 39 per cent from $460 million in 1994, as operating working capital rose $65 million compared with $241 million in the prior year. The change in 1995 resulted largely from an increase in income taxes recoverable attributable mainly to investment tax credits relating to Hibernia. Higher operating working capital in 1994 reflected the repurchase, for $155 million, of accounts receivable previously sold pursuant to a revolving receivables sales agreement.

In 1995, the Company provided $22 million for future removal and site restoration, compared with $24 million in 1994.

INVESTING ACTIVITIES

CAPITAL AND EXPLORATION EXPENDITURES
(millions of dollars)

	1995	1994[1]	1993[1]
UPSTREAM			
Exploration[2]	73	68	31
Development	167	141	152
Oil and gas property acquisitions	50	38	22
Conventional oil and gas	290	247	205
Hibernia development	239	234	165
Natural gas liquids	34	24	32
Oil sands and other	24	22	12
	587	527	414
DOWNSTREAM			
Refining	153	81	129
Marketing and other	101	88	61
	254	169	190
SHARED SERVICES	12	6	5
Expenditures on property, plant and equipment and exploration	853	702	609
Deferred charges and other assets	(14)	2	19
Total	839	704	628

1 *Restated to reflect recommendations of the CICA requiring the use of the proportionate consolidation method of accounting for interests in joint ventures previously accounted for on the equity method.*

2 *Includes exploration expense charged to earnings of $43 million in 1995, $34 million in 1994 and $28 million in 1993.*

(MILLIONS OF DOLLARS)

CAPITAL EXPENDITURE PROGRAM SUPPORTED GROWTH

** Planned expenditures*

With the exception of a portion of Hibernia-related expenditures, Petro-Canada funded its 1995 investments from internally generated cash flow. Total capital and exploration expenditures were $839 million in 1995, an increase of $135 million over 1994. This change is primarily due to development activities in Algeria and Western Canada, investment in the Hibernia project, the expansion of the lubricants facility and enhancements to the marketing network and refineries. Capital expenditures relating to environmental compliance were $62 million in 1995 and $48 million in 1994.

Expenditures for property, plant and equipment and exploration for the Upstream sector were $587 million, an increase of $60 million over 1994. Overall construction of the Hibernia production facility was 85 per cent complete by year end 1995 resulting in expenditures of $239 million. Approximately $145 million was invested in the natural gas business. In Algeria, a priority is to develop the Tamadanet Field on the two million acre Tinrhert Block, resulting in expenditures of $32 million. Drilling began on the first development well in November 1995 and production is expected to commence late in the first quarter of 1996. The remainder was allocated to the exploitation of oil reserves and the acquisition of several high potential properties.

In the Downstream sector, expenditures on property, plant and equipment for the year were $254 million, compared with $169 million in 1994. In September 1995, Petro-Canada began construction on the expansion of its lubricants facility at Mississauga, Ontario. This expansion builds on the infrastructure of the facility and will double production capacity at the plant and reduce unit operating costs for existing operations. The increase from 1994 reflects the investment of $45 million in the lubricants expansion, in addition to refinery enhancements and improvements in the marketing network.

PROCEEDS FROM SALE OF PROPERTY, PLANT AND EQUIPMENT

(millions of dollars)	**1995**	1994	1993
Upstream	24	227	58
Downstream	24	21	29
Shared Services	—	2	1
Total	48	250	88

The Company received proceeds from the sale of property, plant and equipment of $48 million in 1995, compared with $250 million in 1994, of which $149 million related to the sale of TroCana Resources.

FINANCING ACTIVITIES AND DIVIDENDS

SOURCES OF CAPITAL EMPLOYED

(millions of dollars)	**1995**	1994[1]	1993[1]
Notes payable — Hibernia	300	150	150
Long-term debt	1 081	1 109	1 055
Deferred credits and deferred income taxes	957	871	790
Shareholders' equity	3 092	2 945	2 722
	5 430	5 075	4 717
Translation adjustment on long-term debt[2]	(117)	(157)	(116)
Total	5 313	4 918	4 601

1 *Restated to reflect recommendations of the CICA requiring the use of the proportionate consolidation method of accounting for interests in joint ventures previously accounted for on the equity method.*

2 *The translation adjustment on long-term debt is amortized over the remaining term of the debt. The weighted average term of the debt was 14 years at December 31, 1995.*

At December 31, 1995, the Company's total debt was $1 381 million, compared with $1 259 million at year-end 1994 and $1 205 million at the end of 1993. The change in total debt in 1995 was due to a net increase in Hibernia-related Government-guaranteed debt of $150 million, offset by a $26 million revaluation of U.S. dollar denominated debt resulting from a strengthening of the Canadian dollar.

The fiscal regime for the Hibernia offshore oil field gives the Company access to a total of $415 million in Government-guaranteed debt. Entitlement to utilize these guarantees is earned as capital expenditures are made. As at December 31, 1995, Petro-Canada had earned its total entitlement, and had accessed $300 million.

In 1995 the Petro-Canada Hibernia Partnership, through which Petro-Canada manages its interest in the Hibernia oil field, issued $100 million of 7.74 per cent Government-guaranteed bonds due December 1998 and short-term floating rate notes of $50 million. Debt supported by the Government guarantee is carried on Petro-Canada's balance sheet and it is anticipated that revenue from Petro-Canada's share of Hibernia production will service and repay this debt. The Company is party to an agreement for the time charter of a vessel for the transportation of crude oil to be produced from Hibernia. Petro-Canada's annual fixed obligations are expected to commence in late 1997 and will be approximately U.S. $12 million. The initial term of the time charter is ten years, extendable at the Company's option for an additional 15 years.

Dividends on common shares were $49 million in 1995, $41 million in 1994 and $32 million in 1993. In July 1994, Petro-Canada increased its quarterly dividend to 5 cents per share from the 3.25 cents per share paid in each quarter since privatization in 1991.

(TIMES)

DEBT AT TWO TIMES CASH FLOW

At December 31, 1995, Petro-Canada's debt to debt plus equity ratio was 30.9 per cent compared with 29.9 per cent at the end of 1994 and 30.7 per cent at the end of 1993. The Company's ratio of debt to cash flow was 2.0 at the end of 1995, up from 1.8 at year-end 1994 and 1.9 at year-end 1993. These measures, which represent the Company's ability to repay debt and the relative magnitude of debt and equity within its capital structure, are close to the targets set by management and are consistent with industry benchmarks.

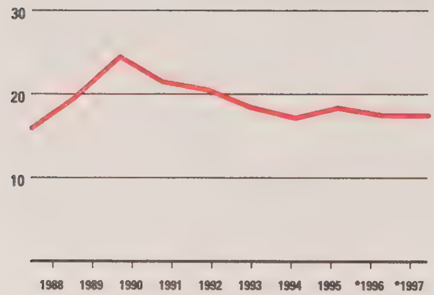
Working capital and bridge financing requirements will continue to be met using the Company's cash position and through the issuance of short-term debt if necessary. Petro-Canada has access to bank lines of credit and a commercial paper program totalling $1.2 billion, supported by committed and demand credit facilities from several major Canadian financial institutions. Neither the lines of credit nor the commercial paper program were utilized as at December 31, 1995. The sale of the personal credit card receivables for cash has decreased the Company's working capital requirements by approximately $110 million in 1996.

FINANCIAL RATIOS
(times)

	1995	1994	1993
Current ratio	1.2	1.3	1.2
Interest coverage			
— earnings basis	3.9	5.1	3.8
— cash flow basis	7.8	8.0	7.5
Debt to cash flow	2.0	1.8	1.9

Other Financing Obligations

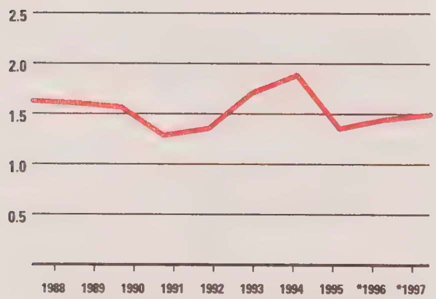
At December 31, 1995, Petro-Canada had other financing obligations of $142 million, consisting of a guarantee of the joint and several obligations of the Company's 50 per cent co-owner of the Petro-Canada Centre office complex.



(WTI PRICE AT CUSHING IN U.S. DOLLARS PER BARREL)

OIL PRICES EXPECTED TO REMAIN FAIRLY CONSTANT

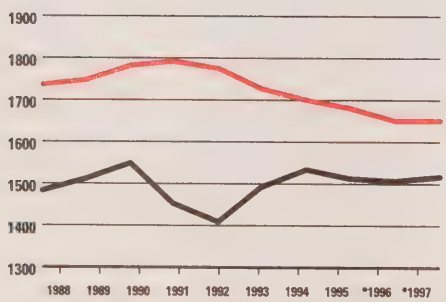
** Outlook*



(ALBERTA AVERAGE PLANT GATE PRICE IN DOLLARS PER THOUSAND CUBIC FEET)

NATURAL GAS PRICES EXPECTED TO REMAIN SOFT

** Outlook*



(THOUSANDS OF CUBIC METRES PER DAY)

INDUSTRY RATIONALIZATION HAS REDUCED EXCESS CANADIAN REFINING CAPACITY AND IMPROVED UTILIZATION

REFINING CAPACITY
CRUDE RUNS

** Outlook*

MANAGEMENT'S OUTLOOK

BUSINESS ENVIRONMENT AND IMPLICATIONS

Natural gas prices have posed the most significant threat to the upstream business environment over the past 18 months and management expects prices to remain low through 1996 and 1997. Prices are expected to remain soft at least until pipeline capacity into the United States is expanded to match deliverability. Management anticipates the Alberta plant gate price for natural gas to average about $1.45 per thousand cubic feet in 1996 and $1.50 per thousand cubic feet in 1997, a moderate increase over the average 1995 price.

Increased concern over rising non-OPEC production, as well as speculation surrounding the possible return of Iraq to the world oil market, has led to a somewhat lower estimate of the average price for WTI crude oil in the near term. Management expects the price of WTI to average U.S. $17.50 per barrel in 1996 and 1997. If Iraq re-enters the market during 1997, prices are anticipated to drop to approximately U.S. $16.50 per barrel.

Management expects a slowdown in Canadian economic growth through 1996, owing to persistently weak consumer demand and tight fiscal policy at both the Federal and Provincial levels. Growth may be improved somewhat if cuts to interest rates stimulate housing starts and consumer spending. The value of the Canadian dollar is expected to remain relatively weak to encourage Canadian exports, which have been the primary engine of economic growth over the last three years. Given continued low inflation rates of two per cent or less, and reduced focus on constitutional issues during 1996, management has assumed that the Canadian dollar will average 74 U.S. cents in 1996.

Approximately 37 per cent of Petro-Canada's employees are covered by collective bargaining agreements. At January 31, 1997, the contracts for refinery and gas plant workers, representing approximately 60 per cent of the unionized employees, are scheduled for renewal and negotiations will commence in the fourth quarter of 1996.

In order to better align its pension plan with changing employment patterns and competitive practice and to contain costs, the Company intends to introduce amendments to its pension plan in 1996. The amended plan will consist of a non-contributory defined contribution plan with level contributions followed by, at the employee's election, participation in a contributory defined benefit plan. Participation in the amended plan will be compulsory for employees hired after its date of introduction while existing employees will have the option to join the amended plan.

In the March 6, 1996 Federal Budget, the Government of Canada announced changes in the method of calculating the resource allowance deduction included in the determination of corporate income taxes payable. These changes will not materially affect the financial position of the Company.

BUSINESS STRATEGY

Petro-Canada's primary objective is to create superior shareholder value. The Company follows the principles of value-based management, which involve assessing the value-creating potential of opportunities and allocating resources to those opportunities offering the greatest potential. The Company continues to evaluate the performance of all its assets on an ongoing basis and will divest or acquire assets where it believes the capability of the business portfolio to create value can be improved.

In addition to a continued focus on improving performance by reducing costs, achieving greater operating efficiencies and asset utilization, the Company has undertaken growth opportunities in four main areas: East Coast offshore, Algeria, natural gas and lubricants. Within its portfolio of businesses, the Company has the following strategies in place.

Petro-Canada's oil strategy is one of reserves replacement and growth. Declining production and reserves from Western Canada are expected to be replaced by reserve additions and production from the East Coast of Canada, Algeria and Syncrude. On the East Coast, Petro-Canada is involved in a major growth project, Hibernia, which at peak is expected to add over 30 000 barrels per day to Petro-Canada's light oil production. Hibernia is expected to be on stream by the end of 1997.

The Company, along with other project participants, is planning to file a development plan application in the spring of 1996 for a second East Coast growth project, Terra Nova, following agreement on fiscal and regulatory matters.

In Algeria, the Company is expecting first oil from the Tamadanet Field in the Tinrhert Block late in the first quarter of 1996. The Tinrhert Block also has further exploration and development potential.

With natural gas, the Company will continue to concentrate on replacing its existing reserve base and increasing production, moving outward from its current base.

In the Downstream, a significant expansion of Petro-Canada's lubricants facility in Mississauga, Ontario will enable the Company to reduce unit operating costs and enter new, high margin markets. The expansion is expected to be on stream by the end of 1996.

Continued performance enhancements throughout the Company will be accomplished in part through the various re-engineering initiatives currently underway. In the Upstream, a focus on cost reduction is expected to improve performance. In the Downstream, emphasis will continue to be placed on reducing costs and improving efficiency. In refining, with no major maintenance shutdowns scheduled in 1996, Petro-Canada anticipates achieving higher utilization rates. The re-engineering of several key marketing processes, initiated in 1995, is expected to result in further increases in retail site throughputs, cost reductions and growth in the contribution from non-petroleum sales.

1996 CAPITAL BUDGET

An $870 million capital expenditure program has been approved for 1996, almost half of which will fund growth initiatives. Upstream sector investments will account for $546 million, with $241 million directed towards conventional exploration and development and strategic property acquisitions. Expenditures for offshore Eastern Canada development, including Hibernia and Terra Nova, will total $210 million. In Algeria, $32 million will be directed towards the completion of the Tamadanet oil field development and further exploration. In the Downstream sector, $182 million will be allocated to refining and marketing and $104 million will be used to complete the lubricants expansion and upgrade the facility.

Petro-Canada had previously announced that it would be willing to sell or joint venture a portion of its interests in the Hibernia development and the Syncrude oil sands project. Due to improvements in the operating and financial results of the Syncrude project, the Company has discontinued its efforts to sell this asset. Although the Company is no longer actively pursuing the sale of a portion of Hibernia, Petro-Canada would consider a joint venture or strategic alliance involving this and other East Coast assets in order to create additional value.

ENVIRONMENTAL FACTORS

As a participant in the oil and gas industry, Petro-Canada is subject to increasing public scrutiny and legislative initiatives relating to the protection of the environment. The environmental challenges facing the industry include: responding to new and broader legislation dealing with issues such as waste management; access to exploration areas; product standards; the adoption of voluntary practices and processes relating to issues such as the control of greenhouse gas emissions; the development and use of alternative fuel additives; and the reclamation and restoration of contaminated sites. The Company anticipates that capital and other expenditures necessary to meet these environmental challenges will increase over time. The Company has provided for estimated future removal and site restoration costs. The amount of this provision at December 31, 1995 was $179 million.

Petro-Canada is committed to the responsible management of the environment and conducts a variety of programs to support this policy, including total loss management, adherence to prudent industry practices and compliance with laws and regulations.

EXPOSURE MANAGEMENT

The objective of Petro-Canada's exposure management program is to reduce the variability of cash flow and earnings related to changes in commodity prices, currency exchange rates, interest rates and physical risks. The Board of Directors has established a committee of management, charged with the overall direction, conduct and control of the Company's exposure management activities, in accordance with policies established by the Board. From time to time, the committee develops parameters to assess the Company's financial exposure and approves the placement of hedges and utilizes other risk management techniques to manage this exposure within acceptable limits.

The committee is currently composed of the Chief Executive Officer and the three Executive Vice-Presidents. The Board of Directors receives a report at least quarterly on the status and strategies of exposure management activities.

The Company's exposure management policy prohibits the use of derivative instruments for speculative purposes. Exposures are managed on a comprehensive corporate basis as opposed to a commodity or business unit basis in order to most effectively manage aggregate exposures within the Company's overall tolerance for downside risk as well as to optimize the benefits of natural hedges and to reduce transaction costs. The exposure management function operates as a cost centre. The Company's exposure management policy permits the use of hedging instruments in the form of put options, call options and futures contracts on over the counter markets and the NYMEX and International Petroleum exchanges. The term of hedging instruments cannot exceed 18 months, unless specifically authorized by the Board of Directors.

Hedging activity is entered into with counterparties who possess a minimum long-term credit rating of "A" and who have signed an International Swap Dealers Association agreement. Credit limits are determined based on the creditworthiness of the counterparties. There is ongoing monitoring and reporting of the exposure management portfolio.

The net effect of commodity and currency hedging during 1995 was an after-tax gain of approximately $13 million, down from $22 million in the prior year.

The Company actively manages the commodity exposures arising from its business activities through the use of physical product arrangements, futures and options. Upstream exposure is mitigated through the forward selling of oil and gas production. At December 31, 1995, a total of eight million barrels of oil were sold forward at a price of U.S. $17.79 per barrel, while by January 31, 1996, approximately five per cent of anticipated net 1996 natural gas production had been sold forward at an average price of U.S. $1.67 per thousand cubic feet. The Downstream sector hedges its exposure to changing refining margins and by January 31, 1996 had hedged a total of 3.7 million barrels of its 1996 heating oil exposure at margins averaging U.S. $3.79 per barrel.

Petro-Canada is exposed to fluctuations in the U.S./Canadian dollar exchange rate in several areas of its business. The direction, timing and magnitude of these exposures are quantified, aggregated and managed using foreign currency options, swaps and forward sales contracts. At year-end, other than certain debt-related swaps, there were no 1996 foreign currency hedges in place.

Exposure to interest rates is managed through hedging transactions including swaps, options and forward rate agreements as well as through the composition of the Company's debt. The principal floating rate exposure is related to the debt in respect of the Petro-Canada Centre. By January 31, 1996, approximately 99 per cent of the Petro-Canada Centre 1996 exposure had been hedged at an effective rate of 7.54 per cent (including all fees) and 37 per cent of its 1997 exposure at an effective rate of 6.67 per cent.

The Company manages its exposures to physical risk through comprehensive risk assessment and loss management processes, and maintains adequate insurance coverage. The Company prioritizes risk assessment and loss prevention activities to optimize the total benefit of this program. A newly developed systems methodology for ensuring risk management integrity has been adopted and is expected to yield significant short-term efficiencies as well as long-term benefits.

Insurance coverage is placed on a diversified basis with quality security in the global insurance market. In 1995, insurance program stability was enhanced through the introduction of a three-year preferred risk agreement. Limits of insurance are based on engineering risk assessments. Deductibles are set at levels that appropriately leverage the Company's ability to retain risk where a cost-benefit is indicated and within acceptable tolerance parameters. All major decisions are approved by senior management and are biased towards conservatism.

Insurance on the Hibernia construction risk is placed to ensure efficient utilization of the significant insurance capacity required for a project of this size. Provision is being made for insurance for the mating, tow out, and installation as well as the early stages of operation. Petro-Canada is taking steps to address this exposure within the context of its overall risk management strategy to buy full protection, recognizing if full protection is not available that the primary objective will be to devote available capacity to physical damage insurance.

Overall, Petro-Canada maintains a conservative exposure profile, which strives to manage downside risk and stabilize financial performance within its overriding objective of adding shareholder value.

GLOSSARY OF FINANCIAL TERMS AND RATIOS

Terms

CAPITAL EMPLOYED: Total assets excluding the translation adjustment on long-term debt, less current liabilities excluding notes payable-Hibernia.

CASH FLOW: Cash flow from operations before changes in non-cash working capital items.

PRODUCING COSTS: Field operating expenses, future site restoration provisions, applicable overhead expenses and taxes (other than income taxes) relating to the production of conventional crude oil, natural gas and natural gas liquids.

DEBT: Notes payable-Hibernia and long-term debt including current portion.

EARNINGS FROM OPERATIONS: Earnings before gains (losses) on asset sales and unusual items, net of income taxes.

OPERATING EXPENSES: Producing, refining and marketing expenses.

OVERHEAD EXPENSES: General and administrative expenses.

BARREL OF OIL EQUIVALENT: Natural gas production (excluding injectants) is converted using 10 000 cubic feet of gas for 1 barrel of oil.

Ratios

RETURN ON CAPITAL EMPLOYED: Net earnings plus after-tax interest expense divided by average capital employed. Measures net earnings relative to the asset base.

CASH FLOW RETURN ON CAPITAL EMPLOYED: Cash flow plus after-tax interest expense divided by average capital employed. Measures cash flow generated relative to the asset base.

OPERATING RETURN ON CAPITAL EMPLOYED: Earnings from operations plus after-tax interest expense divided by average capital employed. Measures operating earnings relative to the asset base.

DEBT TO DEBT PLUS EQUITY: Debt divided by debt plus equity. Indicates the relative amount of debt in the Company's capital structure. Measures financial strength.

CURRENT RATIO: Current assets divided by current liabilities. Reflects the Company's short-term liquidity and its ability to pay short-term trade debts.

INTEREST COVERAGE:

Earnings basis: Earnings before interest expense and provision for income taxes divided by interest expense plus capitalized interest.

Cash flow basis: Cash flow before interest expense and current income taxes divided by interest expense plus capitalized interest.

Both are indicators of the Company's ability to service its debt.

DEBT TO CASH FLOW: Debt divided by cash flow. Indicates the Company's ability to discharge its outstanding debt.

CONVERSION FACTORS

To conform with common usage, imperial units of measurement are used in this report to describe exploration and production while metric units are used for refining and marketing. Dollars are Canadian unless otherwise stated.

1 cubic metre (liquids)	=	6.29 barrels
1 cubic metre (natural gas)	=	35.31 cubic feet
1 litre	=	0.22 imperial gallon
1 hectare	=	2.47 acres

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1 cubic metre (natural gas)	= 35.31 cubic feet
1 litre	= 0.22 imperial gallon
1 hectare	= 2.47 acres

ADDITIONAL PUBLICATIONS

The following publications are available on request from Investor Relations or Communication Services:

- Management's Discussion and Analysis of financial condition and results of operations, filed with Canadian securities regulators
- Statistical Supplement to the Annual Report, containing nine-year financial information and more detailed operating data
- Annual Information Form, filed with Canadian securities regulators
- Form 40-F, filed with the U.S. Securities and Exchange Commission
- Interim Reports, which are published about five weeks after the end of the first, second and third quarters
- Petro-Canada's Code of Business Conduct
- A general brochure on Petro-Canada's activities

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PETRO-CANADA

Printed in C

ANNUAL REPORT

Annual Report

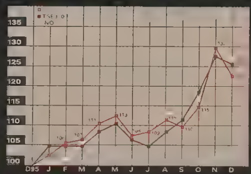
Petro-Canada

PETRO-CANADA

96

Firmly on Course

1996 Share Price Performance



Changes in monthly closing values for Petro-Canada common shares (PCA) compared with Toronto Stock Exchange (TSE) 300 Index and the TSE Integrated Oils Sub-index (INO) from December 29, 1995.

During 1996, Petro-Canada common shares appreciated 23%.

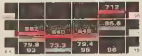
Businesses at a Glance

BUSINESSES AT A GLANCE

PETRO CANADA

Business Description	1996 Objectives	Key Statistics	1996 Highlights	Plans for 1997

Western Canada Oil & Gas



Natural Gas Production
(millions of cubic feet per day)
Western Canada Crude Oil and Field Liquids Production
(thousands of barrels per day)

Grand Banks Oil

International Oil

International Oil Production
(thousands of barrels per day)

Natural Gas Liquids

Straddle Plant Ethane and Natural Gas Liquids Production
(thousands of barrels per day)

Refining

Average Refinery Utilization
(per cent)

Marketing

Average Throughput per Retail Site
(millions of litres)

Lubricants

Lubricants Sales
(millions of litres)

Petro-Canada is a major Canadian oil and gas company and a leader in the Canadian petroleum industry. An integrated company, it has a balanced portfolio of businesses spanning both the upstream and downstream sectors of the industry.

In the upstream, Petro-Canada explores for, develops, produces and markets crude oil, natural gas and natural gas liquids. In the downstream, Petro-Canada transports, refines, distributes and markets petroleum products and related goods and services.

Petro-Canada shares are widely distributed. More than 80 per cent of the outstanding shares are held by institutional and individual investors. No investor may own more than 10 per cent of the public float. About 18 per cent of the Company's shares are held as an investment by the Government of Canada. The common shares and variable voting shares of Petro-Canada trade on Canadian stock exchanges under the symbol PCA and on the New York Stock Exchange under the symbol PCZ.

At the end of 1996, Petro-Canada had a market capitalization of over $5 billion. The Company ranked 18th by weight among The Toronto Stock Exchange 300 companies, representing 1.18 per cent of the total market value of the index. In early 1997, Petro-Canada joined the Toronto 35 Index.

In 1996, a year of strong financial performance and strategic accomplishment, Petro-Canada created shareholder value through profitable growth and operational performance. 1997 also promises to be an exciting year. Petro-Canada is firmly on course to continue creating shareholder value and to achieve our vision of becoming the pre-eminent integrated oil and gas company in Canada. We are committed to attaining an industry leadership position through our key growth engines: natural gas production in Western Canada, Grand Banks oil, and refining and marketing.

PETRO-CANADA'S BUSINESSES AT A GLANCE

Highlights

	1996	1995	1994
Financial *(millions of dollars, unless otherwise indicated)*			
Earnings from operations *(in 1995 before organizational restructuring charge)*	247	241	219
Net earnings	247	186	262
Cash flow	863	705	701
Per common share *(dollars)*			
Earnings from operations *(in 1995 before organizational restructuring charge)*	0.94	0.98	0.89
Net earnings	0.94	0.79	1.06
Cash flow	3.29	2.86	2.84
Dividends paid	0.20	0.20	0.1475
Expenditures on property, plant and equipment and exploration	959	853	702
Return on capital employed *(per cent)*	5.1	4.9	6.7
Cash flow return on capital employed *(per cent)*	15.3	14.8	15.9
Debt	1 709	1 381	1 259
Debt to debt plus equity *(per cent)*	31.6	30.9	29.9
Debt to cash flow *(times)*	2.0	2.0	1.8
Operating return on capital employed *(per cent)* *(in 1995 before organizational restructuring charge)*	5.1	5.7	5.8
Operating			
Crude oil and field natural gas liquids production, net before royalties *(thousands of barrels per day)*	97.3	79.4	73.3
Natural gas production, net before royalties, excluding injectants *(millions of cubic feet per day)*	712	546	540
Ethane and natural gas liquids production from straddle plants *(thousands of barrels per day)*	34.9	37.5	36.8
Proved oil and field natural gas liquids reserves, net before royalties *(millions of barrels)*	452	423	411
Proved natural gas reserves, net before royalties *(trillions of cubic feet)*	2.6	2.1	2.1
Refined petroleum product sales *(thousands of cubic metres per day)*	43.7	41.6	41.5
Average refinery utilization *(per cent)*	99	93	93

To Our Shareholders

Increasing the value of your investment in Petro-Canada is the driving force behind our vision of becoming the pre-eminent integrated oil and gas company in Canada. Petro-Canada's 1995 Annual Report described a clearly defined path to profitable growth as the key to creating superior shareholder value. Petro-Canada advanced steadily along that path in 1996, a year of impressive financial performance and strategic accomplishment, and is firmly on course for continued value creation.

We were gratified to see our people's efforts recognized by the financial markets, as Petro-Canada's stock price reached a new high of $20.60 in 1996 and ended the year up 23 per cent. That the market has confidence in this company was further demonstrated by Petro-Canada's successful debt and equity issues in early 1996 and by our inclusion in The Toronto Stock Exchange's Toronto 35 Index in February of 1997.

In the Upstream, Petro-Canada strengthened its already dominant position offshore Newfoundland. The completion of construction of Hibernia was a major milestone in 1996, as was the filing of a Development Plan Application for the Terra Nova oil field. Petro-Canada's alliance with Norsk Hydro, which gives Petro-Canada producing oil properties in the North Sea, was a significant achievement because it gives us the financial flexibility to accelerate oil field development and our return to exploration on the Grand Banks.

Moving quickly to capitalize on this opportunity, Petro-Canada participated in the acquisition of four parcels on exploration lease from the Government of Newfoundland, in which we and our allies collectively plan to invest $125 million over the next five years. A new generic royalty regime provides a predictable fiscal environment for future Grand Banks projects.

Petro-Canada's acquisition of Amerada Hess Canada Ltd. increased our natural gas production by approximately 40 per cent and our conventional crude oil and field natural gas liquids production by approximately 25 per cent, and provided significant exploration and development opportunities. Two major property swaps allowed us to sharpen the Company's focus on the natural gas business. Through exploration and development activities, the Company replaced about 90 per cent of its gas production in 1996, and our investment in the Syncrude oil sands mining operation continued to perform very well. On the international front, Petro-Canada had production from Algeria and from the Norwegian sector of the North Sea for the first time in 1996.

In the Downstream, Petro-Canada's expanded lubricants facility came on stream in December. Our Downstream operation remained profitable despite a difficult business environment characterized by rising crude prices and intense competitive pressures. Sales and market share increased, throughput per retail site and refinery utilization reached record levels, and costs remained under strict control.

Petro-Canada operates on the principles of Value Based Management, which directs us to maximize investments in those businesses that provide the highest returns. We constantly re-evaluate our portfolio of businesses with an eye to maximizing value created for shareholders. To that end, we have placed a group of non-core assets equivalent to about 10 000 barrels per day of production on the market which we expect to sell in early 1997.

Financial performance in 1996 was very strong, driven by an outstanding year for our Upstream operations. Consolidated net earnings were $247 million, an increase of $51 million over 1995. Earnings from operations were also $247 million compared with 1995 earnings from operations of $241 million, before restructuring charges of $52 million after tax. Consolidated cash flow increased to a record $863 million, up $158 million from $705 million a year earlier.

Petro-Canada's achievements in 1996 are a tribute to our employees, whose dedication allowed this company to thrive in a challenging business environment. We have focused a great deal of our attention on defining the key capabilities required for excellence in all of our businesses and are working with our employees to promote development of these capabilities. Nineteen ninety-seven promises to be an exciting year for employees and shareholders alike, as Petro-Canada will invest $950 million in our numerous growth projects and to sustain existing businesses.

Petro-Canada's key growth engines in 1997 and beyond are increased natural gas production in Western Canada, Grand Banks oil, and refining and marketing. Petro-Canada shareholders and employees will look back on 1997 as the year Hibernia came on stream, a period when their company returned to exploration with renewed vigour in Western Canada and on the Grand Banks and had its first full year of production from our expanded, state-of-the-art lubricants facility. These initiatives drive the profitable growth that will go on creating value for Petro-Canada's shareholders in the future.

James M. Stanford
President and Chief Executive Officer

Thomas E. Kierans
Chairman of the Board

Upstream Sector Review

Norm McIntyre

Upstream Sector – Key Results	1996	1995	1994
FINANCIAL *(millions of dollars)*			
Earnings from operations	192	153	153
Gains on asset sales	4	6	19
Gain on sale of TroCana Resources	–	–	21
Net earnings	196	159	193
Cash flow	655	477	448
OPERATING			
Crude oil and natural gas liquids production *(thousands of barrels per day)*	97.3	79.4	73.3
Natural gas production *(millions of cubic feet per day)*	712	546	540
Ethane and natural gas liquids production from straddle plants *(thousands of barrels per day)*	34.9	37.5	36.8

Petro-Canada's Upstream oil and gas business finds, develops, produces and markets hydrocarbons. Our continued success at creating value in this business is dependent on our ability to deploy capital efficiently and maintain superior operating performance.

Our Upstream operations seek to expand production and revenue by extracting maximum value from existing assets while positioning for long-term growth from light oil on the Grand Banks and gas in Western Canada. Petro-Canada will continue to exploit Western Canada light oil assets, retain core natural gas liquids assets and focus our international efforts on light oil.

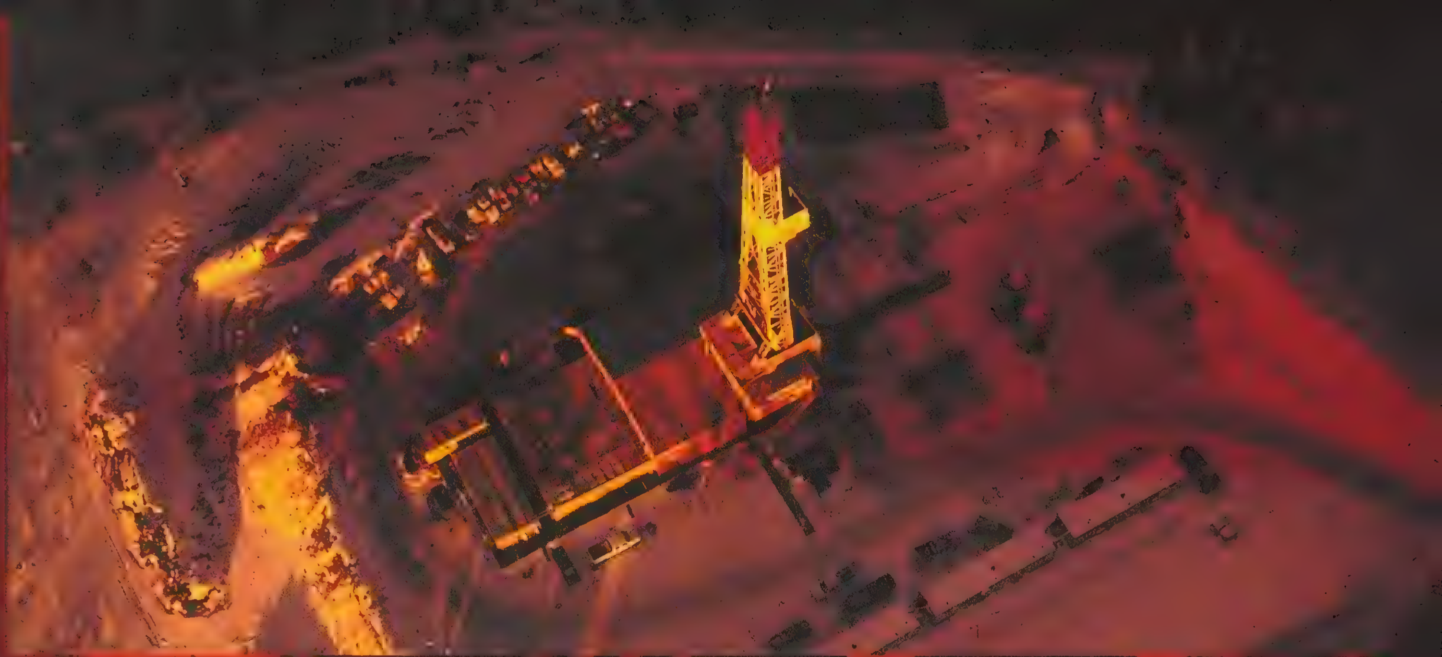
We have made great progress in 1996, a year of many achievements of which all of Petro-Canada's employees can be proud. Our production base in Western Canada increased significantly with the acquisition of Amerada Hess Canada. Our position in midstream facilities, undeveloped land and exploration prospect inventory was also enhanced. Asset swaps further strengthened our natural gas business. Algerian production came on stream in late May. We filed a Development Plan Application for the Terra Nova field in August. In December, Petro-Canada concluded a strategic alliance with Norsk Hydro and announced the successful contractor alliance for the Terra Nova floating production system.

The future of Petro-Canada's Upstream business looks very bright. Hibernia will come on stream in late 1997 and Terra Nova could come on stream in late 1999. At peak levels these two fields will produce approximately 56 000 barrels per day for Petro-Canada. Syncrude production will increase gradually over the next few years and provide the Company with a reliable source of cash flow and reserves. We will continue exploration and development drilling for oil and gas in Western Canada and on identified prospects in Algeria. Given continued drilling success in Western Canada, on the Grand Banks and internationally, Petro-Canada's daily production level in five years should be 250 000 barrels of oil equivalent, almost twice the 1995 level.

With an energetic and capable employee group, a focused asset base, ample growth opportunities and a relentless drive to improve operating performance, Petro-Canada is well positioned to continue generating shareholder value in the years to come.

N McIntyre

Norman F. McIntyre
Executive Vice-President



PETRO-CANADA IS RETURNING TO EXPLORATION IN WESTERN CANADA.

Western Canada Oil and Gas

Natural gas gains momentum

Petro-Canada's current main engine of growth in Western Canada is natural gas, and steps were undertaken in 1996 to expand this key business. Petro-Canada is capitalizing on growth opportunities arising from the acquisition of Amerada Hess Canada Ltd. The $735 million acquisition strengthens Petro-Canada's drive for gas growth by adding 504 billion cubic feet of proved natural gas reserves and 40 million barrels of proved crude oil and liquids reserves, solid exploration potential and high working interest positions in numerous gas plants. Many of the producing properties acquired are concentrated in west central Alberta, a core area for Petro-Canada.

Petro-Canada returns to exploration

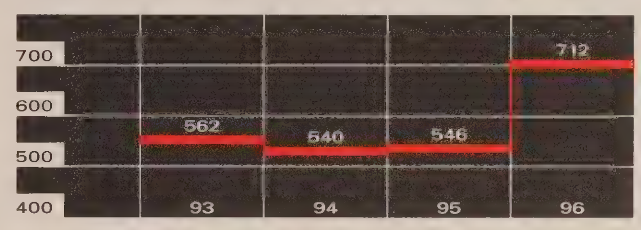
Bolstered by its expanded asset base, Petro-Canada is committed to grow through full-cycle exploration in Western Canada. In 1996, the Company added over 800 000 acres of undeveloped land and increased exploration spending to $93 million. In 1997, Petro-Canada plans to drill approximately 60 exploratory wells, with exploration expenditures rising to about $120 million.

The Company's portfolio includes exploration and development prospects in four primary geographic areas: Alberta foothills, northeastern British Columbia, the deep basin of west central Alberta, and the west central plains of Alberta. The Alberta foothills, which were the source of 90 billion cubic feet of gas equivalent reserve additions in 1996, is a key area of focus.

Swaps and divestitures focus Western Canada asset base

An active acquisition and disposition program is another component of Petro-Canada's natural gas growth initiative. By exchanging non-core, fully valued assets for core assets and prospects, the Company is able to maximize returns from its priority plays. The Company has identified certain non-core oil and gas properties with daily production of approximately 60 million cubic feet of natural gas and 1 000 barrels of oil and natural gas liquids for divestiture in early 1997. Petro-Canada will reinvest proceeds of these divestitures in Western Canada core areas with the greatest potential to create value.

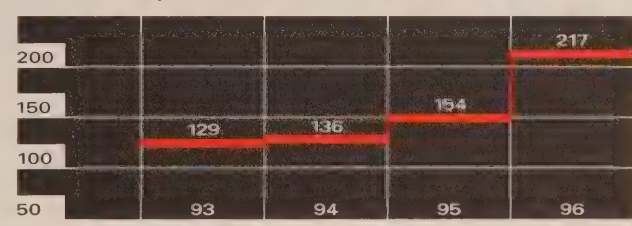
Daily gas production excluding injectants, net before royalties



(millions of cubic feet)

New discoveries and properties acquired from Amerada Hess Canada Ltd. boosted gas production in 1996.

Gas reserve additions from discoveries and extensions, net before royalties



(billions of cubic feet)

Increased exploration resulted in significant gas discoveries in 1996.


NATURAL GAS FROM WESTERN CANADA IS ONE
OF PETRO-CANADA'S KEY ENGINES OF GROWTH.

In September, Petro-Canada exchanged its 100 per cent interest in the Golden Lake heavy oil property for $22.5 million cash plus interests in the Benjamin Creek and Limestone natural gas properties, which are located adjacent to existing Alberta foothills area assets. In another transaction, the Company exchanged its natural gas interests in the Scotian Shelf for interests in the Ferrier, Gilby, Ricinus and Saskatchewan areas of Western Canada, which include some attractive exploration acreage. Through the Amerada Hess Canada Ltd. acquisition and the Scotian Shelf swap, Petro-Canada now has a 99 per cent interest in the Ferrier property, which produced 2 100 barrels of oil per day in 1996 and has remaining reserves of 19 million barrels of oil.

Technology makes an impact

Petro-Canada employs state-of-the-art three-dimensional seismic technology and horizontal drilling to define new prospects and optimize production from existing fields.

By year end 1996, horizontal drilling accounted for 10 per cent (75 million cubic feet per day) of the Company's total gas production, a proportion expected to grow in the future. At Wildcat Hills, 35 billion cubic feet of gas reserves were added by drilling horizontally into a structure identified by three-dimensional seismic. At Gold Creek, 24 billion cubic feet of gas equivalent reserves were added through horizontal drilling. These liquids-rich reserves will be processed through the Gold Creek plant, which was recently expanded. Significant production gains also came from key areas such as Jedney and Clarke Lake. Petro-Canada has identified additional natural gas targets for exploitation with horizontal drilling in 1997.

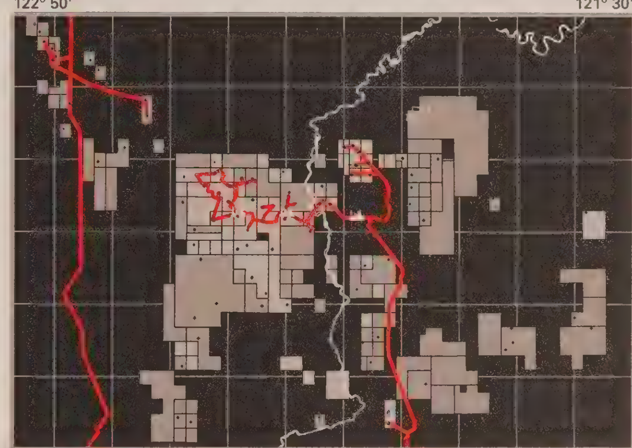
Plant planning: expansion and utilization

Petro-Canada is adding natural gas processing capacity and taking advantage of unused capacity in existing plants. A new plant owned and operated by Westcoast Gas Services and contracted to process Petro-Canada and other producers' gas was completed at Jedney, British Columbia, and began processing in December. Capable of handling 60 million cubic feet of natural gas per day, it will likely be expanded in 1997.

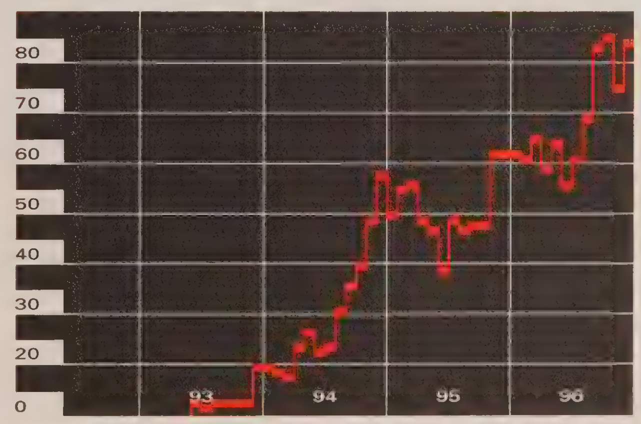
Natural gas growth at Tommy Lakes

Petro-Canada began development of the Tommy Lakes area in northeastern British Columbia with an exploration drilling program and construction of some facilities in 1994. The Company quickly recognized the area's growth potential.

Tommy Lakes, British Columbia



Gas Production from Horizontal Wells



millions of cubic feet per day

Petro-Canada's increased use of horizontal drilling technology has helped increase natural gas production.

By the winter of 1995/96, more than 30 wells had been drilled and production had climbed to over eight million cubic feet per day from zero just two years earlier. In early 1996, the asset team for the area recommended a bold approach: aggressively buy land, then launch a simultaneous winter seismic, drilling and facility installation program to avoid the summer access challenges posed by muskeg in the area. As a result, Petro-Canada bought out several competitors in 1996, increasing the Company's acreage position significantly.

During this winter of 1996/97, the Company will complete a major program of new drilling, tie in 25 wells, and install 75 kilometres of pipeline with six gas turbine compressors, a program which might normally have taken three years. Petro-Canada expects new production from the area to add over 15 million cubic feet of daily production in 1997, building significant momentum for Petro-Canada's gas growth.

Crude oil and liquids reserves boosted

Petro-Canada is a substantial producer of conventional crude oil in Western Canada, a position strengthened by the acquisition of Amerada Hess Canada Ltd., which added approximately 40 million barrels of proved reserves. Petro-Canada's daily oil production from Western Canada in 1996 was 48 400 barrels.

Natural gas liquids generate cash flow

Low inventory levels and a colder-than-average winter kept prices high and demand strong for natural gas liquids in 1996. As a result, cash generation was up significantly for the second consecutive year.

Petro-Canada continues to evaluate strategic options for its retail propane subsidiary, ICG Propane. ICG adopted a new brand positioning, business processes, and technology during 1996, and made substantial progress in transforming the Company's retail propane business in an extremely difficult business environment.

Syncrude interest provides growth opportunities

The Syncrude oil sands plant, in which Petro-Canada has a 12 per cent interest, is a reliable source of cash flow, production and long-life reserves. A new generic royalty formula for Syncrude, which accelerates writeoffs for capital costs, comes into effect in 1997 and will spur numerous growth opportunities for Syncrude partners in the next five to seven years. These projects include a northern extension of the mine site, debottlenecking of the upgrading plant and development of the Aurora mine on the east side of the Athabasca River. Petro-Canada's share of the capital cost of these projects is about $146 million, of which $13 million will be spent in 1997.

Petro-Canada's share of production from Syncrude averaged 24 100 barrels per day in 1996 and is expected to increase by about 10 000 barrels per day over the next 10 years through further mine expansion and process improvements.

Other oil sands

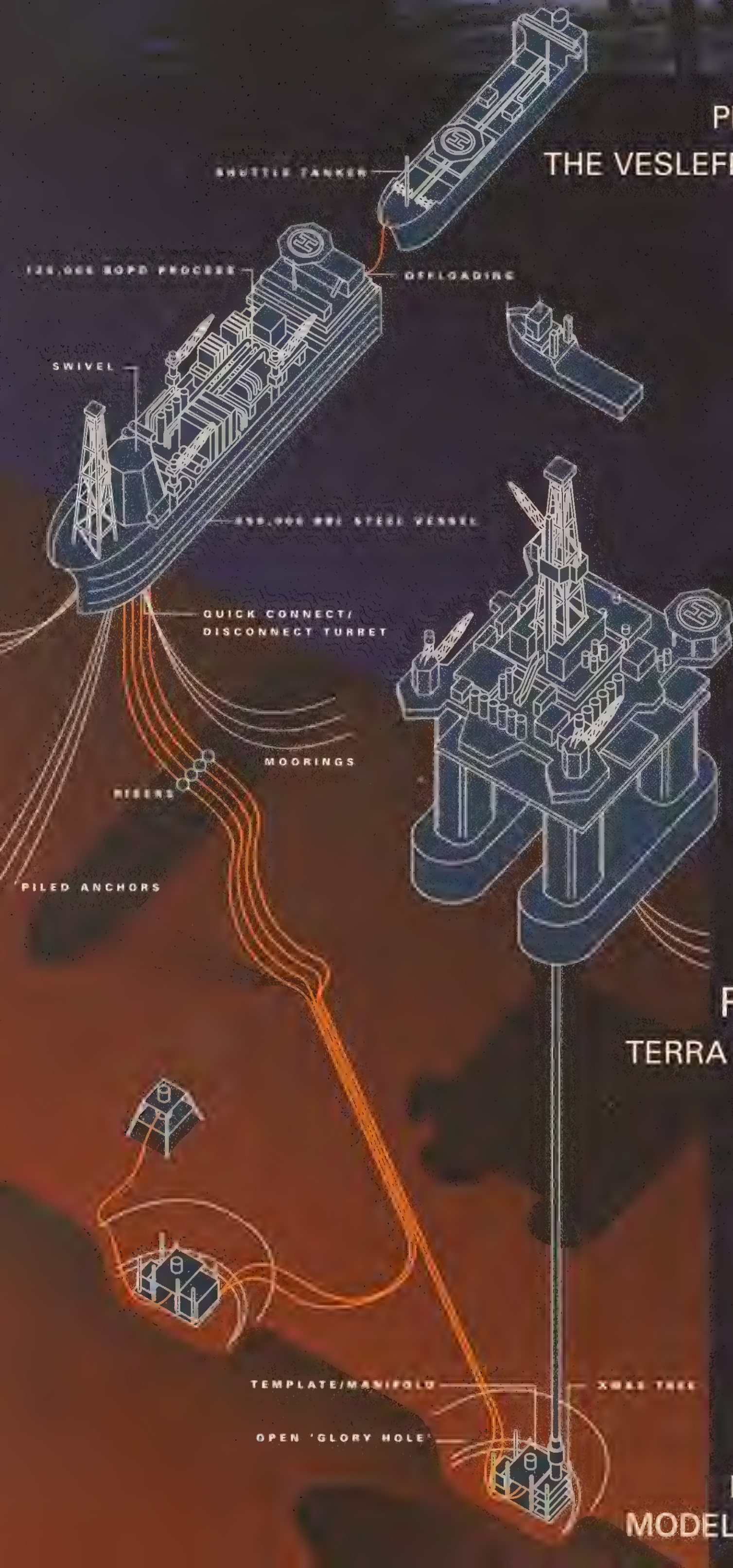
Petro-Canada is one of the largest holders of in-situ oil sands leases in the Athabasca area, with interests varying from 15 per cent to 100 per cent. During the winter of 1996/97, Petro-Canada began a significant core hole drilling program to evaluate and delineate the in-situ reserves. Evaluation of the results will continue in 1997.

HIBERNIA COMES ON STREAM IN 1997.
PETRO-CANADA'S SHARE OF PEAK PRODUCTION
WILL BE 27 000 BARRELS OF CRUDE OIL PER DAY.

Terra Nova

PETRO-CANADA IS OPERATOR OF THE TERRA NOVA OIL FIELD,
LOCATED 35 KILOMETRES SOUTHEAST OF HIBERNIA OFFSHORE NEWFOUNDLAND.
TERRA NOVA COULD COME ON STREAM IN LATE 1999.

PETRO-CANADA'S SHARE OF PRODUCTION FROM THE VESLEFRIKK FIELD AVERAGED 6 500 BARRELS OF LIQUIDS IN 1996.



PETRO-CANADA'S ESTIMATED SHARE OF TERRA NOVA WILL BE 29 000 BARRELS OF CRUDE OIL PER DAY AT PEAK PRODUCTION.

TERRA NOVA'S STEEL MONOHULL FLOATING PRODUCTION SYSTEM WILL BE A MODEL FOR FUTURE GRAND BANKS OIL DEVELOPMENT.

Grand Banks Oil and International Oil

Grand Banks oil is a cornerstone of Petro-Canada's growth plans. There are several reasons why the oil industry has been attracted to this region offshore Newfoundland. The area has proven to contain large quantities of oil, and finding costs are low. Technology development, particularly floating and subsea technology, has resulted in very competitive development and operating costs, and the Province of Newfoundland and Labrador has established a royalty regime that is profit sensitive and fair to all stakeholders.

Advances in floating production system technology over the past 10 years have substantially lowered the capital and operating costs of offshore production, to the point where pools are now being developed in the North Sea at costs not much different than the average per barrel capital and operating costs typical in Western Canada.

Petro-Canada is involved in the first two major Grand Banks oil developments: Hibernia, which contains over 600 million barrels of light, sweet crude and Terra Nova, whose reserves are independently estimated at 300 to 400 million barrels. Petro-Canada is the operator of Terra Nova. The Company owns about 353 million barrels of probable and possible reserves of Grand Banks oil according to Canada-Newfoundland Offshore Petroleum Board estimates, and Petro-Canada believes there is significant upside in this number. This represents 22 per cent of the resources discovered in 17 significant discoveries made to date on the Grand Banks.

Norsk Hydro alliance brings strategic benefits

In December, Petro-Canada finalized a strategic alliance agreement with Norsk Hydro. The financial flexibility afforded by this agreement will allow Petro-Canada to accelerate field development and further exploration on the Grand Banks. In exchange for interests in Hibernia, Terra Nova and other Grand Banks discoveries, Norsk Hydro will contribute approximately $85 million toward Petro-Canada's share of capital costs to develop Hibernia and Terra Nova. The alliance provides Petro-Canada with interests in two North Sea fields and access to the Norwegian firm's considerable offshore expertise.

First oil from Hibernia in 1997

Petro-Canada sees Hibernia as the foundation of a bright future for the emerging Grand Banks oil industry. The project is on budget and on schedule. The last phase of construction of the topsides and gravity base structure was completed during 1996. The topsides and the concrete platform will be joined in the spring and towed to location in June. The Company expects first oil from Hibernia to flow in December.

At peak production, Hibernia will produce 135 000 barrels per day, of which Petro-Canada's share will be 27 000 barrels. As part of its strategic alliance with Norsk Hydro, the Company has reduced its working interest in the Hibernia project to 20 per cent from 25 per cent.

Terra Nova development progressing

Petro-Canada took significant steps to accelerate the development of the Terra Nova field during 1996. These include the filing of a Development Plan Application, now under review by a regulatory panel, the signing of a letter of intent regarding benefits principles and fiscal terms, and the selection of a contractor alliance to design and construct the steel monohull floating production system.

The panel is expected to render a decision on the Development Plan Application in the fall of 1997 and, assuming a successful result, project development will proceed immediately thereafter. At peak, Petro-Canada's estimated share of Terra Nova production will be 29 000 barrels per day. As part of its strategic alliance with Norsk Hydro, the Company reduced its working interest in Terra Nova. Once it reaches a unitization agreement with all of the Terra Nova participants, Petro-Canada expects its working interest to be 29 per cent.

The successful alliance contractor, the Grand Banks Alliance group, is currently engaged in pre-engineering work and will share the project's risks and rewards based on agreed cost and scheduling targets. Pre-production, which includes construction and installation of floating production and subsea systems and the drilling of pre-production wells, is expected to cost approximately $1.6 billion.

Petro-Canada returns to exploration on the Grand Banks

[illegible]

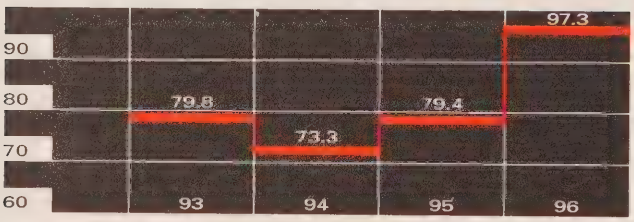
Norway and the North Sea

[illegible]

Algeria delivers first oil

[illegible]

Daily Oil and Liquids Production, including Syncrude



[illegible]

[illegible]

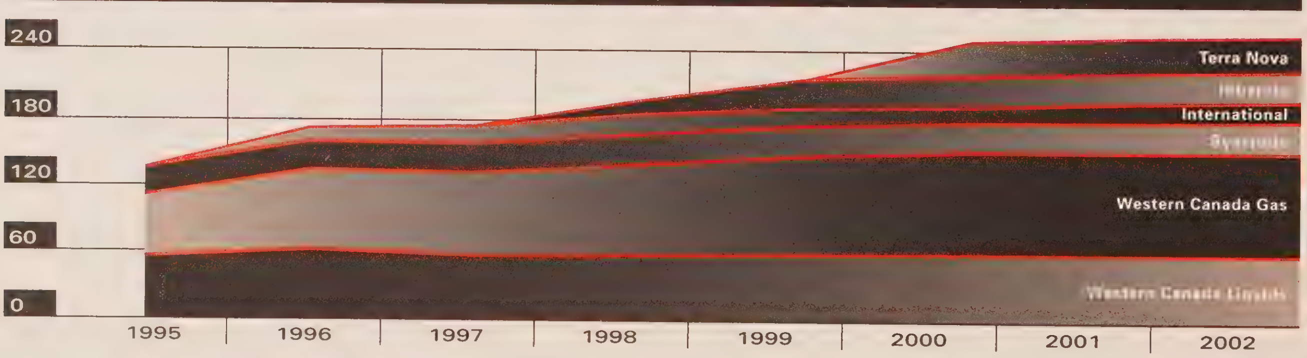
[illegible]

The Grand Banks will provide the foundation of the Company's future light oil growth. First oil from the Hibernia project is [illegible] Terra Nova Development Plan Application and a decision is [illegible]

[illegible] wells and is continuing to acquire land.

[illegible]

Production Profile *(thousands of barrels of oil equivalent per day)*



Downstream Sector Review

Jim Pantelidis

Downstream Sector – Key Results	1996	1995	1994
FINANCIAL *(millions of dollars)*			
Earnings from operations	130	160	136
(Losses) gains on asset sales	(3)	1	2
Net earnings	127	161	138
Cash flow	243	305	295
OPERATING			
Refined petroleum product sales *(thousands of cubic metres per day)*	43.7	41.6	41.5
Refinery crude capacity at year end *(thousands of cubic metres per day)*	45.4	45.4	45.1
Average refinery utilization *(per cent)*	99	93	93

Our strategy in the Downstream is to maximize earnings and cash flow by converting crude oil to cash in the shortest possible time through controlled market channels, providing the highest value products and services. Through an integrated approach to our refining and marketing business, we aim to optimize development of regional markets.

In 1996, we achieved a five per cent increase in refined petroleum product sales, while posting record capacity utilization in our three refineries and record retail throughputs per site. Retail volumes were at their highest level since 1989, when the Company's network was almost twice the size.

These results were achieved despite extremely challenging conditions in the marketplace, as crude prices rose steadily and unexpectedly throughout the year and an intense price war in Eastern Canada made a tough situation worse. As a result of these external market factors, net earnings in the Downstream declined to $127 million from $161 million a year earlier. Indicative of our solid operating performance, return on capital employed of six per cent was highest among the Canadian integrated companies.

Our plants have been reconfigured to process a range of feedstocks, including additional heavy and sour crude capability. Redesigned maintenance and operating procedures have made our facilities more reliable and efficient.

In marketing, our goal is to establish brand superiority by building on our unique Canadian identity and tailoring our offering so that Canadians will want to shop at Canada's Gas Station. We've taken significant forward strides in retail during 1996, with the roll-out of our sleek, new stations and our first SuperStop outlets. SuperStop represents a milestone in convenience retailing and a significant opportunity for growth in non-petroleum revenue. During 1996, an average of 32 per cent of our retail sales volume was associated with Petro-Points, our proprietary loyalty program. We will add value and breadth to the program in 1997 by selectively adding new retail partners who will be issuing Petro-Points in support of our brand.

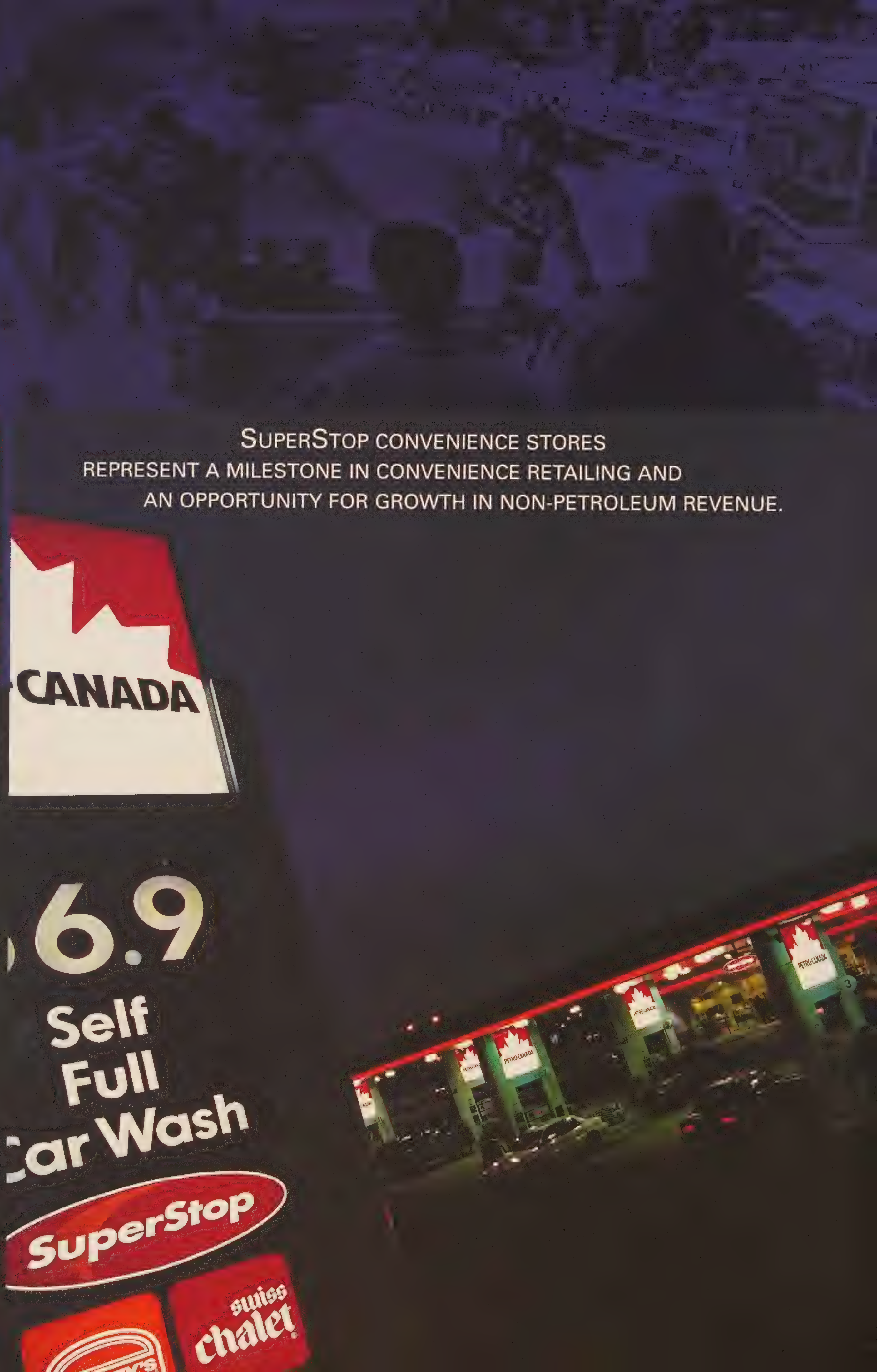
We successfully introduced new products such as Arctic Oil, WinterGas and SuperClean gasoline, integrated initiatives which helped push retail volumes and throughputs to new levels in 1996. In the wholesale market, our Petro-Pass cardlock operations helped us achieve a sharp increase in fuel sales. Finally, our recently completed lubricants expansion delivers new processing/product capability and positions us to aggressively pursue foreign and North American markets for white oils and high-viscosity-index lubricating oils. In 1996, sales to international markets comprised 43 per cent of total lubricants sales volumes.

Conditions in the lubricants market are weak at present, but we are well positioned to benefit from expected growth in this high-margin business in the next two to three years.

As we move forward in 1997, we will strive to improve upon our industry leading results. Our people, processes and programs leave us poised to deliver superior financial performance as oil prices stabilize and the business environment improves.

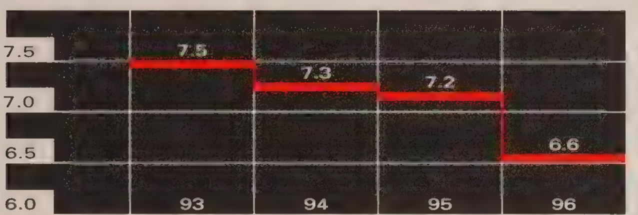
James Pantelidis
Executive Vice-President

SUPERSTOP CONVENIENCE STORES REPRESENT A MILESTONE IN CONVENIENCE RETAILING AND AN OPPORTUNITY FOR GROWTH IN NON-PETROLEUM REVENUE.



Refining and Marketing

Expenses* per litre



(cents)

*Producing and refining, marketing, G&A, depreciation and taxes other than income taxes. Crude oil and product purchases not included.

In Petro-Canada's continued drive to be the most efficient downstream competitor, we have reduced our unit costs by 8.3 per cent since 1995 and 12 per cent since 1993.

Refineries running at near full capacity

Increasing utilization allows the fixed costs of a refinery to be distributed over a larger volume, thereby reducing cost per unit processed.

In 1996, Petro-Canada's refineries ran at an average of [illegible] cubic metres of crude oil per day. This resulted in record crude capacity utilization of 99 per cent, up from 93 per cent the previous year. Debottlenecking of facilities and improved reliability and shutdown procedures aided the increased utilization.

Managing the controllable

Petro-Canada is managing input costs through rigorous inventory management. *The more rapidly crude oil and other feedstocks can be converted into the highest-value products and sold, the greater the earnings and cash-flow potential.* Since 1990, the Company has reduced inventories and the days forward supply of crude oil and products by approximately 35 per cent. Meanwhile, design and process improvements at Petro-Canada's refineries allow greater flexibility in the variety of crude oil and other feedstocks being purchased and processed. By optimizing its feedstock mix, the Company is able to minimize input costs.

Refinery Utilization

(per cent)

Refinery utilization reached record levels in 1996

Downstream Earnings from Operations *(millions of dollars)*	Q1	Q2	Q3	Q4	Total 1996	Total 1995
Refining and Supply	29	21	13	24	**87**	[illegible]
Marketing	9	18	10	6	**43**	[illegible]
Total Downstream	38	39	23	30	**130**	[illegible]
Margins *(cents per litre)*						
Rack Back (Refining and Supply) Margin	[illegible]	1.3	1.2	1.6	**1.6**	[illegible]
Rack Forward (Marketing) Margin	4.5	[illegible]	4.1	4.5	**4.7**	[illegible]

PETRO-CANADA'S EXPANDED LUBRICANTS PLANT HAS REDUCED PER-UNIT PROCESSING COSTS AND PROVIDES A HIGHER-MARGIN PRODUCT MIX.

Re-engineering brings benefits

Petro-Canada is continually improving its refining operations, maintenance procedures and management of supply in its drive to be a low-cost producer of quality refined petroleum products and services. In 1996, the rack back business garnered the full benefit of a re-engineering initiative, resulting in estimated annual before-tax expense and cost of sale savings of $58 million.

New-look sites build profile and visibility

Petro-Canada is distinguishing itself from the competition with marketing programs designed to raise its visibility and profile as Canada's Gas Station.

The Company's new site design is attractive and functional, and customer response to date has been excellent. The "starting gate" pump island allows faster, easier customer access, including pay-at-the-pump convenience at selected locations, while resulting in lower maintenance and operating costs. In addition to a broader offering of convenience products and services, the new-look sites address customer demand for increased security through improved lighting and clear lines of sight from the pump island to the attendant.

SuperStop: a new era in convenience retailing

Petro-Canada is aggressively responding to the needs of retail consumers and the expectation of continually tight gasoline margins. In 1996, the Company opened three 5 000 square foot SuperStop convenience stores, the culmination of more than two years of intensive consumer research. The flagship application of the Company's sleek, futuristic site design, SuperStop offers guests an exceptional selection of convenience products and services such as branded fast food, gourmet coffee and baked goods, banking services, and fresh produce. SuperStop is supported by a team of retail specialists who carefully tailor product and service offerings in various categories to changing consumer demands. Smaller sites feature SuperStop Express.

Petro-Points builds repeat business

In addition to offering superior products and service at competitive prices, Petro-Canada is gaining new customers and strengthening relationships with existing ones. The proprietary Petro-Points program, which rewards repeat customers with points they can redeem for automotive merchandise, enhances the Company's identity and connection with the Canadian motorist and bolsters brand awareness. Petro-Points is being expanded with new offerings and new retail partners in specific customer segments.

New products enhance brand equity

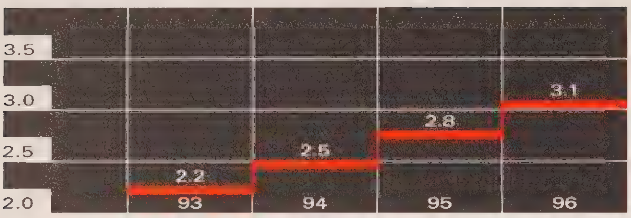
Petro-Canada is a leader in tailoring its refined petroleum products to the unique needs of the market it serves. In November, the Company introduced WinterGas, a specially formulated fuel suitable for all vehicles and designed to prevent gas line freezing, a harsh reality of the Canadian winter. To complement WinterGas, Petro-Canada also introduced Arctic Oil, a premium synthetic blended oil designed to maintain lubricating performance at temperatures as low as –40° celsius. In June, Petro-Canada introduced SuperClean gasoline in Ontario, providing enhanced engine performance and emissions benefits.

Wholesale fuels post major improvement

The Company is continuing to reap rewards from its Petro-Pass commercial cardlock network, which serves truckers at approximately 150 locations coast-to-coast. Fuel sales at Petro-Pass outlets were up 14 per cent in 1996 compared with 1995, the third consecutive year of double-digit improvement. The upgrading of Petro-Pass sites, completed during 1995 and geared to providing superior service and convenience features, gives Petro-Canada a competitive edge in the fast-growing diesel fuels market. Wholesale volumes through bulk plants posted a three per cent increase over 1995, aided by aggressive marketing and increased economic activity.

Marketing programs boost sales, throughputs

Average Throughput per Retail Site



Lubricants expansion: on time, on budget

1997 and Beyond

The Company will continue to focus on improving its pacesetting performance in the controllable aspects of the business: refinery efficiency, marketing throughputs, increased non-petroleum revenue, and vigilant management of expenses.

Wesley Twiss

Key Financial Results	1996	1995	1994
CONSOLIDATED *(millions of dollars, unless otherwise stated)*			
Earnings from operations before organizational restructuring charge	247	241	219
Organizational restructuring	–	(52)	–
Earnings from operations	247	189	219
Unusual item and gains on asset sales	–	7	43
Net earnings	247	196	262
Per share *(dollars)*	0.94	0.79	1.06
Cash flow	863	705	701
Per share *(dollars)*	3.29	2.86	2.84
Operating return on capital employed *(in 1995, before organizational restructuring charge) (per cent)*	5.1	5.7	5.8
Return on capital employed *(per cent)*	5.1	4.9	6.7
Cash flow return on capital employed *(per cent)*	15.3	14.8	15.9
Expenditures on property, plant and equipment and exploration	959	853	702
Debt	1 709	1 381	1 259
Debt to cash flow *(times)*	2.0	2.0	1.8
Debt to debt plus equity *(per cent)*	31.6	30.9	29.9
Cash	32	43	95

Petro-Canada's primary objective remains the creation of shareholder value. We were very successful in this area in 1996, as Petro-Canada's share price increased 23 per cent over the course of the year, adding to the 38 per cent increase achieved in 1995. We were also pleased to be included in the Toronto 35 Index in early 1997.

The Company follows the principles of Value Based Management, which involves assessing the value-creating potential of our various opportunities and allocating resources to the best opportunities in businesses offering the greatest potential.

Sound management processes throughout Petro-Canada ensure that the Company continually seeks new ways to build value and to eliminate activities that do not add to shareholder value.

A good example of this approach in 1996 was Petro-Canada's acquisition of Amerada Hess Canada Ltd., which we purchased at a cost of about $6.50 per barrel of oil equivalent (proven plus half probable reserve estimates). The acquisition was immediately accretive to cash flow per share, contributing an estimated $85 million of cash flow during the last three quarters of 1996, and was financed conservatively, with roughly equal amounts of equity and long-term debt, consistent with our balance sheet targets.

Maintaining financial flexibility is a key element to the achievement of our growth goals. The Norsk Hydro alliance, which closed in December 1996, allows Petro-Canada to accelerate development of its other Grand Banks reserves and return to exploration in the region because it immediately increases cash flow and reduces capital requirements for the Hibernia and Terra Nova developments. Based on current plans, we estimate that this alliance will reduce our cash requirements for Grand Banks activities by about $250 million over the next five years.

Petro-Canada faces a variety of risks which we manage in various ways, including adequate insurance coverage and hedging of commodity exposures under closely controlled conditions. Petro-Canada's hedging policy, which was conceived when the Company was less financially robust than it is today, is designed to ensure cash flow for investment projects. The program yielded negative results in 1996 as a result of unexpectedly high commodity prices. We have no material commodity hedges in place for 1997. Our improved financial situation now gives us the flexibility to re-evaluate the Company's hedging policy.

We want to ensure that financial markets reflect fair value for Petro-Canada's securities. Our vigorous Investor Relations program aims to broaden the shareholder base and include more foreign investors as a means of boosting shareholder value. We created variable voting shares, which meet the requirements of the legislation under which we operate while allowing non-residents of Canada the opportunity to own a larger portion of our equity. Non-resident ownership of Petro-Canada's shares was about 16 per cent of the public float at the end of 1996. Our Investor Relations department is working hard to increase this measure.

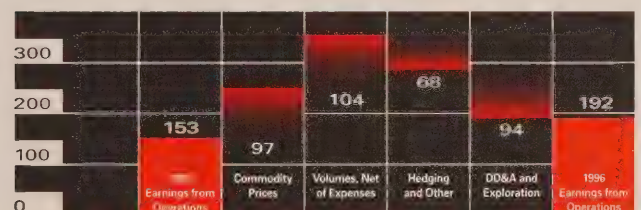
We will continue to support profitable growth and to seek creative financial solutions in the future, with an eye to creating shareholder value and maintaining the strength of Petro-Canada's balance sheet.

Wesley R. Twiss
Executive Vice-President

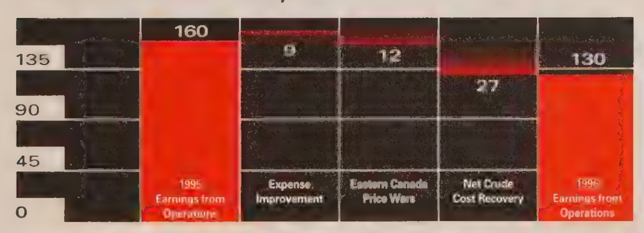
Financial Performance

[illegible]

Upstream Factor Analysis



Downstream Factor Analysis



[illegible]

Major events

Petro-Canada reorganized its share capital in early 1996 to increase the opportunity for non-residents of Canada to invest in the Company. [illegible]

from $870 million, largely as the result of the Amerada Hess Canada Ltd. acquisition and Petro-Canada's continuing investment in natural gas growth.

The short-term debt associated with Hibernia was repaid in full at year end 1996. Petro-Canada does not intend to issue further Hibernia-related debt.

In July, 1996, Moody's Investors Service and Standard & Poor's upgraded Petro-Canada's debt ratings, citing a stronger outlook for cash flow and earnings in the medium term as a result of the Company's recent strategic accomplishments. Moody's increased its rating on Petro-Canada's senior unsecured notes and debentures from Baa1 to A3 and Standard & Poor's upgraded its rating from BBB to BBB plus. Subsequent to year end, Dominion Bond Rating Service upgraded its rating of these same instruments from A (low) to A.

1997 and Beyond

Petro-Canada expects commodity prices to moderate somewhat in 1997. The Company plans for a West Texas Intermediate crude price of U.S. $21 for the year, and natural gas prices of Cdn. $1.47 per thousand cubic feet Alberta plant gate. Petro-Canada has specific financial targets for the future, including return on capital employed of 10 per cent, cash flow return on capital employed of 20 per cent, maximum debt to debt plus equity of 30 per cent, and maximum debt to cash flow of two times. Return on capital employed and cash flow return on capital employed will be constrained until capital-intensive projects like Hibernia and Terra Nova reach full production between 1998 and 2000.

The Company expects financial performance to improve in 1997 for several reasons, including a full year of production from the former Amerada Hess Canada Ltd. assets, reduced hedging activity and international oil production growth. The Company will benefit in 1997 from a full year of Norwegian and Algerian production, and a recovery in refining and marketing driven by lower costs, better margins, and a full year of production from the expanded lubricants plant.

In 1997, Petro-Canada plans to invest $950 million in property, plant and equipment and exploration including a $100 million non-cash, capitalized lease related to a Hibernia tanker. The Upstream sector will account for $700 million of total capital expenditures, including approximately $290 million for exploration and development of conventional properties in Western Canada. Expenditures related to development and exploration offshore Newfoundland, including Hibernia and Terra Nova, will total approximately $190 million. The Company will invest over $60 million outside Canada, largely to complete the development of the Njord field in Norway, and for further exploration and development on the two million acre Tinrhert Block in Algeria. In the Downstream, investments will total approximately $215 million, primarily to accelerate the enhancement of retail marketing operations and to improve the profitability of refineries and of the recently expanded lubricants business. In addition, the Company will direct approximately $35 million to investments in business systems and process re-engineering programs. Petro-Canada expects to fund these investments from cash flow. Petro-Canada has a long-term debt issue maturing in June, 1997 that it intends to repay.

After a thorough assessment of its assets following the Amerada Hess Canada Ltd. acquisition, the Company placed on the market non-core properties representing daily production of about 10 000 barrels of oil equivalent, which is expected to sell during the first quarter of 1997. Petro-Canada intends to reinvest the proceeds of this sale in Western Canadian upstream assets when attractive opportunities become available.

Since implementing its current exposure management strategy several years ago, Petro-Canada's financial strength and cash flow have improved and the Company now is in the position to absorb more risk. Consequently, Petro-Canada likely will engage in less hedging and other risk management activity in the future.

Petro-Canada's dividend policy is relatively conservative, reflecting the wealth of investment opportunities available to the Company. The Board of Directors reviews this policy on a regular basis.

Beyond simply practicing responsible corporate citizenship, Petro-Canada cares about the quality of Canadian life, respects community values and actively supports the communities in which it works.

Environmental Protection

Environmental protection is a fundamental Petro-Canada value. The Corporation recognizes that every employee has a vital role to play in protecting the environment. Senior management leads the implementation of this policy. Petro-Canada's commitment is incorporated into business activities through the following guiding principles. Petro-Canada will:

- ensure our operations comply with government legislation, corporate policy and applicable industry standards concerning the protection of the environment and the public
- determine, evaluate and mitigate the environmental impacts of our business during project planning, implementation, operation and decommissioning
- ensure that appropriate waste and emissions management programs are developed and implemented
- respond to emergencies in a prompt and effective manner
- ensure that all employees and others engaged on our behalf are aware of the need, informed of the requirements and trained to protect the environment
- use energy and other resources efficiently in our operations
- support research on the environmental effects of our products, processes and waste materials
- deal openly and fairly with members of the public regarding our activities

Petro-Canada expects its suppliers, partners and business associates to have compatible environmental procedures and values.

Environment, Health and Safety status reports are presented regularly to the Board of Directors.

Community Investment

Petro-Canada invests in a variety of charitable and non-profit initiatives in education, health and social services, arts and culture, and the environment, both through funding and hands-on involvement. In 1996, the Company invested about $3 million in charitable endeavours throughout Canada.

Our Community Investment Program is national in scope, with particular emphasis on locations where we have a substantial presence. We endeavour to strike a balance between activities that relate to our industry's disciplines and initiatives that address broader community needs.

We are striving to support the development of Canada's brightest young minds through special initiatives like our Graduate Research Program and our Petro-Canada Young Innovator Awards.

Many Petro-Canada employees and retirees provide volunteer assistance in communities across Canada. Our Volunteer Grant Program recognizes these efforts by providing funding support to the charities and non-profit groups with which they volunteer.

Management's Responsibility for the Financial Statements

The preparation and presentation of the Company's consolidated financial statements is the responsibility of management. The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include estimates which are based on management's best judgements. Information contained elsewhere in the Annual Report is consistent, where applicable, with that contained in the financial statements.

Management is also responsible for installing and maintaining a system of internal controls to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced for preparation of financial statements.

Arthur Andersen & Co., a firm of chartered accountants, were appointed by the shareholders as external auditors to conduct an independent examination and express their opinion on the consolidated financial statements. The Auditors' Report outlines the auditors' opinion and the scope of their examination. The Company has also contracted Arthur Andersen & Co. to provide other audit services, including the review of the system of internal controls formerly conducted by the internal auditor.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises these responsibilities with the assistance of the Audit Committee of the Board.

President and Chief Executive Officer

Executive Vice-President
(chief financial officer)

January 29, 1997

Audit Committee of the Board of Directors

The Board of Directors exercises its responsibility for ensuring that management fulfills its financial reporting and internal control duties with the assistance of the Audit Committee of the Board.

The Committee, which is composed of not less than three (currently five) directors who are not employees of the Company, reviews the annual consolidated financial statements prior to their approval by the Board. The Committee also reviews financial information contained in prospectuses and in reports filed with regulatory authorities, as required, as well as quarterly financial information.

With respect to the external auditors, the Committee reviews the terms of engagement, the annual audit plan, the Auditors' Report and the results of the audit. The Committee also recommends to the Board a firm of external auditors to be appointed by the shareholders.

With respect to Arthur Andersen & Co.'s engagement as contract auditor to review the system of internal controls, the Committee receives periodic reports, reviews significant findings and recommendations and approves their engagement contract and annual review plan.

Senior management, the external auditor and the contract auditor attend all Audit Committee meetings and each is provided with the opportunity to meet privately with the Committee.

Chairman of the Audit Committee

January 29, 1997

Auditors' Report

To the Shareholders of Petro-Canada:

We have audited the consolidated balance sheet of Petro-Canada as at December 31, 1996 and 1995 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1996 in accordance with generally accepted accounting principles.

Arthur Andersen & Co.

Chartered Accountants
Calgary, Alberta

January 29, 1997

Petro-Canada

Consolidated Statement of Earnings

(stated in millions of Canadian dollars)

For the years ended December 31,	1996	1995	1994
Revenue			
Operating	$5 514	$4 739	$4 641
Investment and other income	93	81	117
	5 607	4 820	4 758
Expenses			
Crude oil and product purchases	2 988	2 405	2 329
Producing, refining and marketing	1 257	1 198	1 233
General and administrative *(Note 4)*	187	308	209
Exploration	60	43	34
Depreciation, depletion and amortization	440	338	347
Taxes other than income taxes	70	68	71
Interest on long-term debt	101	81	88
Other interest	8	9	11
	5 111	4 450	4 322
Unusual Item *(Note 5)*	–	-	51
Earnings before Income Taxes	496	370	487
Provision for Income Taxes *(Note 6)*			
Current	160	120	126
Deferred	89	54	99
	249	174	225
Net Earnings	$ 247	$ 196	$ 262
Net Earnings per Share *(dollars) (Note 7)*	$ 0.94	$ 0.79	$ 1.09

Consolidated Statement of Retained Earnings

(stated in millions of Canadian dollars)

For the years ended December 31,	1996	1995	1994
Retained Earnings (Deficit) at Beginning of Year	$ (282)	$ (429)	$ (650)
Net earnings	247	196	262
Dividends on common and variable voting shares	(53)	(49)	(41)
Retained Earnings (Deficit) at End of Year	$ (88)	$ (282)	$ (429)

Petro-Canada

Consolidated Statement of Changes in Financial Position

(stated in millions of Canadian dollars)

For the years ended December 31,	1996	1995	1994
Operating Activities			
Net earnings	$ 247	$ 196	$ 262
Items not affecting cash flow *(Note 8)*	556	466	405
Exploration expenses *(Note 12)*	60	43	34
Cash flow	863	705	701
Decrease (increase) in operating working capital and other *(Note 9)*	59	(65)	(241)
Cash flow from operating activities	922	640	460
Investing Activities			
Acquisition of Amerada Hess Canada Ltd. *(Note 10)*	(735)	–	–
Expenditures on property, plant and equipment and exploration	(959)	(353)	(702)
Proceeds from sale of property, plant and equipment	92	48	250
(Increase) decrease in deferred charges and other assets, net	(9)	14	(2)
	(1 611)	(791)	(454)
Financing Activities and Dividends			
Dividends on common and variable voting shares	(53)	(49)	(41)
(Decrease) increase in notes payable – Hibernia	(50)	150	–
Reduction of long-term debt	(2)	(2)	(13)
Proceeds from issue of long-term debt	377	–	12
Proceeds from issue of common and variable voting shares	406	–	2
	678	99	(40)
Decrease in Cash and Short-Term Investments	(11)	(52)	(34)
Cash and Short-Term Investments at Beginning of Year	43	95	129
Cash and Short-Term Investments at End of Year	$ 32	$ 43	$ 95

Petro-Canada

Consolidated Balance Sheet

(stated in millions of Canadian dollars)

As at December 31,	1996	1995
ASSETS		
Current Assets		
Cash and short-term investments	$ 32	$ 43
Accounts receivable	943	796
Inventories *(Note 11)*	472	413
Prepaid expenses	28	24
Income taxes recoverable	–	86
	1 475	1 362
Property, Plant and Equipment, net *(Note 12)*	6 014	4 829
Deferred Charges and Other Assets *(Note 13)*	280	297
	$7 769	$6 488
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$1 196	$1 058
Income taxes payable	58	
Current portion of long-term debt	109	–
Notes payable – Hibernia	–	50
	1 363	1 108
Notes Payable – Hibernia *(Note 14)*	250	250
Long-Term Debt *(Note 15)*	1 350	1 081
Deferred Credits and Other Liabilities *(Note 16)*	321	336
Deferred Income Taxes	793	621
Commitments and Contingent Liabilities *(Note 22)*		
Shareholders' Equity *(Note 17)*	3 692	3 092
	$7 769	$6 488

Approved on behalf of the Board

Director

Director

Notes to Consolidated Financial Statements

(tabular amounts stated in millions of Canadian dollars)

1. Summary of Significant Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements include the accounts of Petro-Canada and of all subsidiary companies ("the Company") and comply in all material respects with Canadian generally accepted accounting principles.

(b) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of crude oil and products is determined primarily on a "last-in, first-out" basis.

(c) Investments

Investments in companies over which the Company has significant influence, other than joint ventures, are accounted for on the equity method. Interests in joint ventures are proportionately consolidated while other long-term investments are accounted for on the cost method.

(d) Property, Plant and Equipment

Investments in exploration and development activities are accounted for on the successful efforts method. Under this method the acquisition cost of unproved acreage is capitalized. Costs of exploratory wells are initially capitalized pending determination of proved reserves and costs of wells which are assigned proved reserves remain capitalized while costs of unsuccessful wells are charged to earnings. All other exploration costs are charged to earnings as incurred. Development costs, including the cost of all wells, are capitalized.

Substantially all of the Company's exploration and development activities are conducted jointly with others. Only the Company's proportionate interest in such activities is reflected in the financial statements.

The interest cost of debt attributable to the construction of major new facilities is capitalized during the construction period.

(e) Depreciation, Depletion and Amortization

Depreciation and depletion of capitalized costs of oil and gas producing properties is calculated using the unit of production method.

Depreciation of other plant and equipment is provided on either the unit of production method or the straight line method, based on the estimated service lives of the related assets, as appropriate.

The carrying amounts of unproved properties are evaluated periodically for impairment with any such impairment being charged to earnings.

(f) Future Removal and Site Restoration Costs

Estimated future removal and site restoration costs which are probable and can be reasonably determined are provided for on either the unit of production method or the straight line method, based on the estimated service lives of the related assets, as appropriate.

(g) Translation of Foreign Currency

Monetary assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Other assets and related depreciation, depletion and amortization, other liabilities, revenue and other expense items are translated at rates of exchange in effect at the respective transaction dates. The resulting exchange gains or losses are included in earnings, except for unrealized exchange gains or losses arising on translation of long-term debt, which are deferred and amortized over the remaining term of the debt.

Foreign operations are integrated with the Company's other activities and are translated in the manner described above.

Notes to Consolidated Financial Statements

(tabular amounts stated in millions of Canadian dollars)

1. Summary of Significant Accounting Policies *(continued)*

(h) Hedging Activity

The Company uses derivative instruments to reduce its exposure to foreign exchange, interest rate and commodity price fluctuations. Gains and losses on these contracts which constitute effective hedges are deferred and recognized as a component of the related transaction.

(i) Post Retirement Benefits

In addition to its pension plans the Company provides for other post retirement benefits, including health, dental and life insurance, to its qualifying retirees. The actuarially determined cost of these benefits are accrued over the estimated service lives of employees.

2. Segmented Information

The Company operates in two business segments:

Upstream, comprising: exploration, development, production, transportation and marketing activities for crude oil, natural gas, propane, field liquids, sulphur and oil sands; and extraction of liquids from natural gas.

Downstream, comprising: purchase and sale of crude oil; refining crude oil into oil products; and distribution and marketing of these and other purchased products.

Financial information by business segment is presented in the following table as though each segment were a separate business entity. Inter-segment transfers of products, which are accounted for at market value, are eliminated on consolidation. Shared Services includes investment income, interest expense and general corporate revenues and expenditures. Shared Services assets are principally cash and short-term investments, buildings and other general corporate assets.

	Upstream			Downstream		
	1996	1995	1994	**1996**	1995	1994
Revenue						
Sales to customers and other revenues	**$1 035**	$ 790	$ 921	**$4 551**	$4 029	$3 827
Inter-segment sales	**667**	553	499	**8**	13	24
Segment Revenue	**$1 702**	$1 343	$1 420	**$4 559**	$4 042	$3 851
Earnings						
Operating earnings before the following:	**$ 789**	$ 565	$ 577	**$ 340**	$ 401	$ 359
Depreciation, depletion and amortization	**(315)**	(217)	(220)	**(120)**	(118)	(124)
Exploration expense	**(60)**	(43)	(34)	**–**	–	–
Unusual item	**–**	–	51	**–**	–	–
Provision for income taxes	**(218)**	(146)	(181)	**(93)**	(122)	(97)
Net Earnings	**$ 196**	$ 159	$ 193	**$ 127**	$ 161	$ 138
Capital and Exploration Expenditures						
Property, plant and equipment and exploration expenditures	**$ 649**	$ 587	$ 527	**$ 282**	$ 254	$ 169
Deferred charges and other assets	**(2)**	(18)	(5)	**2**	(2)	(1)
Acquisition of Amerada Hess Canada Ltd.	**735**	–	–	**–**	–	–
	$1 382	$ 569	$ 522	**$ 284**	$ 252	$ 168
Total Assets	**$4 432**	$3 263	$2 912	**$2 940**	$2 743	$2 672
Capital Employed	**$4 033**	$2 919	$2 573	**$2 161**	$2 061	$2 029

(tabular amounts stated in millions of Canadian dollars)

2. Segmented Information *(continued)*

	Shared Services			Consolidated		
	1996	1995	1994	**1996**	1995	1994
Revenue						
Sales to customers and other revenues	**$ 21**	$ 1	$ 10	**$5 607**	$4 820	$4 758
Inter-segment sales	**–**					
Segment Revenue	**$ 21**	$ 1	$ 10			
Earnings						
Operating earnings (loss) before the following:	**$ (24)**	$ (125)	$ (20)	**$1 105**	$ 841	$ 916
Depreciation, depletion and amortization	**(5)**	(3)	(6)	**(440)**	(338)	(347)
Exploration expense	**–**		–	**(60)**	(43)	(34)
Interest	**(109)**	(90)	(99)	**(109)**	(90)	(99)
Unusual item	**–**	–	–	**–**	–	51
(Provision for) recovery of income taxes	**62**	94	53	**(249)**	(174)	(225)
Net Earnings (Loss)	**$ (76)**	$ (124)	$ (69)	**$ 247**	$ 196	$ 262
Capital and Exploration Expenditures						
Property, plant and equipment and exploration expenditures	**$ 28**	$ 12	$ 6	**$ 959**	$ 853	$ 702
Deferred charges and other assets	**9**	6	8	**9**	(14)	2
Acquisition of Amerada Hess Canada Ltd.	**–**	–		**735**	–	–
	$ 37	$ 18	$ 14	**$1 703**	$ 839	$ 704
Total Assets	**$ 397**	$ 462	$ 492	**$7 769**	$6 469	$6 076
Capital Employed	**$ 214**	$ 313	$ 316	**$6 408**	$5 313	$4 918

3. Taxes and Crown Royalties

In addition to the provision for income taxes and other taxes included in the consolidated statement of earnings, the following items have been collected or produced on behalf of governments and have been paid or are payable by the Company:

	1996	1995	1994
Provincial fuel and sales taxes	**$1 268**	$1 196	$1 135
Federal excise taxes	**786**	766	676
Goods and Services Tax collected	**585**	514	517
Crown royalties, paid and paid in kind	**225**	129	124
	$2 864	$2 605	$2 452

4. General and Administrative Expenses

General and administrative expenses for 1995 include a provision of $87 million for the cost of an organizational restructuring program resulting in a workforce reduction and related changes in office space requirements.

5. Unusual Item

During 1994 the Company disposed of TroCana Resources, a business unit formed to hold certain non-core oil and gas properties, resulting in a gain of $51 million.

(tabular amounts stated in millions of Canadian dollars)

6. Income Taxes

The computation of the provision for income taxes, which requires adjustment to earnings before income taxes for non-taxable and non-allowable items, is as follows:

	1996	1995	1994
Earnings before income taxes	**$ 496**	$ 370	$ 487
Add (deduct):			
Non-deductible royalties and other payments to provincial governments, net	**180**	105	120
Resource allowance	**(162)**	(93)	(115)
Non-deductible depreciation, depletion and amortization	**118**	49	78
Equity in earnings of affiliates	**(8)**	(11)	(8)
Other	**–**	7	(9)
Earnings as adjusted before income taxes	**$ 624**	$ 427	$ 553
Canadian Federal income tax rate	**38.0%**	38.0%	38.0%
Canadian Federal income tax on earnings as adjusted	**$ 237**	$ 162	$ 210
Large Corporations Tax	**12**	11	9
Provincial and other income taxes, net of federal abatement	**37**	22	26
Rebates and other	**(37)**	(21)	(20)
Provision for income taxes	**$ 249**	$ 174	$ 225
Effective income tax rate on earnings before income taxes	**50.2%**	47.0%	46.2%

Complex income tax issues which involve interpretations of continually changing regulations are encountered in computing the provision for income taxes. Management believes that all such outstanding issues have been adequately provided for.

7. Net Earnings per Share

The basic net earnings per share, based on the weighted average number of common and variable voting shares outstanding in 1996 of 262.3 million (1995 – 246.7 million; 1994 – 246.7 million), for the year ended December 31, 1996 was $0.94 (1995 – $0.79; 1994 – $1.06). Fully diluted earnings per share, calculated on the assumption that all outstanding stock options were exercised, do not differ from the basic net earnings per share.

8. Items not Affecting Cash Flow

	1996	1995	1994
Depreciation, depletion and amortization	**$ 440**	$ 338	$ 347
Deferred income taxes	**89**	54	99
Provision for future removal and site restoration costs	**23**	22	24
Amortization of unrealized foreign exchange losses	**14**	13	20
Gain on sale of assets	**(21)**	(13)	(40)
Organizational restructuring *(Note 4)* and other	**11**	52	6
Unusual item *(Note 5)*	**–**	–	(51)
	$ 556	$ 466	$ 405

(tabular amounts stated in millions of Canadian dollars)

9. Decrease (Increase) in Operating Working Capital and Other

	1996	1995	1994
Accounts receivable	**$ (46)**	$ (31)	$ (220)
Income taxes recoverable	**86**	(75)	(11)
Inventories	**(58)**	23	8
Prepaid expenses	**(3)**	8	(2)
Accounts payable and accrued liabilities	**17**	57	75
Income taxes payable	**49**	-	(53)
Current portion of long-term liabilities and other	**14**	(47)	(38)
	$ 59	$ (65)	$ (241)

Operating working capital is comprised of working capital other than cash and short-term investments, notes payable – Hibernia and current portion of long-term debt.

10. Acquisition of Amerada Hess Canada Ltd.

Effective April 3, 1996 the Company acquired all of the issued shares of Amerada Hess Canada Ltd. The acquisition has been accounted for by the purchase method of accounting as follows:

Book value of assets acquired, excluding cash	$ 563
Book value of assumed liabilities	(229)
	334
Excess of attributed value over book value of acquired assets allocated to property, plant and equipment	401
	$ 735

Funds for the acquisition were provided by the issuance of common and variable voting shares and long-term debt.

11. Inventories

	1996	1995
Crude oil, refined products and merchandise	**$ 408**	$ 349
Materials and supplies	**64**	64
	$ 472	$ 413

(tabular amounts stated in millions of Canadian dollars)

12. Property, Plant and Equipment

	1996			1995			Capital Expenditures	
	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Cost	Accumulated Depreciation, Depletion and Amortization	Net	1996	1995
Upstream								
Oil and gas								
Canada non-frontier	$ 4 120	$1 975	$2 145	$3 073	$1 789	$1 284	$ 301	$ 225
Hibernia Project	822	–	822	852	–	852	142	239
Other frontier	53	–	53	74	–	74	7	5
Foreign	234	11	223	29	–	29	79	21
Oil sands								
Syncrude Project	591	224	367	566	212	354	25	20
Other	216	216	–	215	215	–	1	–
Natural gas liquids	560	321	239	532	291	241	34	34
Other	40	35	5	76	68	8	–	–
	6 636	2 782	3 854	5 417	2 575	2 842	589	544
Downstream								
Refining	2 476	1 407	1 069	2 311	1 340	971	165	153
Marketing and other	1 358	503	855	1 277	471	806	117	101
	3 834	1 910	1 924	3 588	1 811	1 777	282	254
Other Property, Plant and Equipment	566	330	236	499	289	210	28	12
	$11 036	$5 022	$6 014	$9 504	$4 675	$4 829	$ 899	$ 810

Interest capitalized during 1996 amounted to $32 million (1995 – $28 million; 1994 – $17 million).

Costs relating to the Hibernia Project and Other frontier are not currently being amortized.

Capital expenditures and exploration expenses charged to earnings are classified as investing activities in the consolidated statement of changes in financial position.

13. Deferred Charges and Other Assets

	1996	1995
Translation adjustment on long-term debt	$ 107	$ 117
Deferred pension funding	77	77
Investments	39	40
Goodwill	25	32
Other	32	27
Investment tax credits	–	4
	$ 280	$ 297

(tabular amounts stated in millions of Canadian dollars)

14. Notes Payable – Hibernia

Notes payable – Hibernia comprise $150 million 6.125% bonds issued in 1993 and $100 million 7.74% bonds issued in 1995, both of which mature in 1998. These bonds relate to the Hibernia Project and are guaranteed by the Government of Canada (Note 22(a)); recourse of the holders is limited to the guarantee.

15. Long-Term Debt

	Maturity	1996	1995
8.60% unsecured notes (U.S. $300 million)	2001	**$ 411**	$ 410
9.25% unsecured debentures (U.S. $300 million)	2021	**411**	410
7.875% unsecured debentures (U.S. $275 million)	2026	**377**	–
9.375% unsecured notes [1]	1997	**109**	109
Mortgage bonds [2]	2006	**78**	80
Notes payable [2]	1999	**62**	62
Other		**11**	10
		1 459	1 081
Less current portion		**109**	–
		$1 350	$1 081

[1] *Canadian dollar notes and the related interest payments have been converted into U.S. $80 million (1995 – U.S. $80 million) through a currency swap arrangement, resulting in an effective interest rate of 7.39% (Note 21).*

[2] *The notes payable and mortgage bonds relate to the Company's 50% ownership of Petro-Canada Centre, an office complex in Calgary, and consists of two revolving term credit facilities. Through the use of derivative instruments the interest rate on a portion of this debt has been set for 1997 (Note 21). The total Petro-Canada Centre debt of $281 million has a joint and several guarantee by the co-owners.*

The minimum repayments of long-term debt in the next five years are $109 million in 1997, $250 million of Notes payable – Hibernia in 1998 (Note 14), $62 million notes payable in 1999 and $411 million unsecured notes in 2001.

16. Deferred Credits and Other Liabilities

	1996	1995
Future removal and site restoration costs	**$ 144**	$ 150
Post retirement benefits	**107**	103
Long-term liabilities	**70**	83
	$ 321	$ 336

(tabular amounts stated in millions of Canadian dollars)

17. Shareholders' Equity

	1996	1995
Common and variable voting shares	**$1 208**	$ 802
Contributed surplus	**2 572**	2 572
Retained earnings (deficit)	**(88)**	(282)
	$3 692	$3 092

The authorized share capital of the Company is comprised of an unlimited number of:

(a) Preferred shares issuable in series designated as Senior Preferred Shares

(b) Preferred shares issuable in series designated as Junior Preferred Shares

(c) Common and variable voting shares

In 1996, the common share capital was reorganized into two classes of common equity: common shares which may be held only by residents of Canada and variable voting shares which may be held only by non-residents of Canada. The common shares and the variable voting shares differ only in their voting entitlements. The common shares carry one vote per share. The variable voting shares carry between one vote per share to 1/3 of one vote per share, depending on the number of variable voting shares outstanding compared to the number of voting shares outstanding. As the number of variable voting shares exceeds 25% of the public float of voting shares, the vote per variable voting share decreases so that the variable voting shares as a class do not carry more than 25% of the aggregate outstanding votes attached to all voting shares in the public float.

Changes in common and variable voting shares were as follows:

	1996		1995	
	Shares	Amount	Shares	Amount
Balance at beginning of year	**246 719 043**	**$ 802**	246 667 063	$ 802
Issued for cash	**23 732 385**	**403**	–	–
Issued under stock option plan	**276 959**	**3**	51 980	–
Balance at end of year	**270 728 387**	**$1 208**	246 719 043	$ 802

The Company has granted options to purchase shares under the terms of the Executive Stock Option Plan. Stock options outstanding as at December 31, 1996 were as follows:

Expiry Date	Option Price	Number of Shares
July 3, 2001	$13.000	765 930
July 29, 2002	8.125	362 700
December 31, 2002	15.750	482 400
March 18, 2003	7.875	276 800
March 2, 2004	13.625	185 060
March 1, 2005	11.500	217 080
January 31, 2006	16.250	741 500
January 31, 2006	17.700	28 530

(tabular amounts stated in millions of Canadian dollars)

18. Pension Plans

The Company maintains pension plans with defined benefit and defined contribution provisions. The defined benefit provisions are generally based upon years of service and average salary during the final years of employment. Certain defined benefit options require employee contributions and the balance of the funding for the registered plans is provided by the Company, based upon the advice of an independent actuary. Under the defined contribution provision, which was introduced during 1996, the Company's annual contribution is 5% of each participating employee's pensionable earnings. The pension assets are held primarily in equity, fixed income and other marketable securities.

	1996	1995	1994
Pension Expense			
Current service cost	**$ 23**	$ 24	$ 23
Interest cost	**66**	64	59
Actual return on plan assets	**(109)**	(109)	3
Net amortization and deferral	**39**	44	(64)
	$ 19	$ 23	$ 21
Pension Funding	**$ 23**	$ 35	$ 28

	1996	1995
Financial Status of Defined Benefit Pension Plans		
Actuarial value of assets	**$ 803**	$ 794
Pension obligation	**754**	771
Net pension asset	**$ 49**	$ 23

The net pension asset is amortized to earnings over the expected average remaining service life of the employees covered by the plans, which is currently 10 years.

As at December 31, 1996 $741 million (1995 – $754 million) of the pension obligation was vested.

	1996	1995	1994
Defined Benefit Plan Assumptions			
Discount rate	**9.0%**	9.0%	9.0%
Long-term rate of return on plan assets	**9.0%**	9.0%	9.0%
Rate of compensation increase, excluding merit increases	**5.0%** [1]	4.5%	4.0%

[1] *Increasing to 5.5% in 1997 and thereafter.*

19. Related Party Transactions

Transactions with the Government of Canada (which holds 18% of the Company's issued shares at December 31, 1996), its agencies and other related parties, are in the normal course of business and are therefore on the same terms as those accorded to non-related parties.

As at December 31, 1996 officers and employees owed the Company $3 million (1995 – $4 million) in relation to stock purchase plans.

(tabular amounts stated in millions of Canadian dollars)

20. Fair Value of Financial Instruments

As at December 31, 1996 the fair value and the related method of determination along with the carrying value of the Company's financial instruments were as follows:

Cash and Short-Term Investments

The fair value of cash and short-term investments approximates the carrying amount of these instruments due to their short maturity.

Long-Term Debt and Notes Payable – Hibernia

The fair value of long-term debt and notes payable – Hibernia is based on publicly quoted market values.

Derivative Instruments

The fair value of derivative instruments is based on quotes provided by brokers.

	Carrying Amount	Fair Value
Cash and short-term investments	**$ 32**	**$ 32**
Long-term debt and notes payable – Hibernia	**(1 709)**[1]	**(1 865)**
Derivative instruments	**(8)**	**(3)**

[1] *Excludes translation adjustment of $107 million (Note 13).*

21. Derivative Instruments

Crude Oil and Products

The Company has reduced its exposure to refining cracking margin fluctuations in the downstream business segment by selling margin contracts and by buying crude oil contracts and selling heating oil contracts. The downstream business segment has also bought forward crude oil contracts to reduce exposure to margin fluctuations on fixed price product sales and to reduce exposure on short-term price fluctuations on the purchase of foreign crude oil.

Natural Gas

The Company has sold forward 9 630 million cubic feet of natural gas production at an average price of U.S. $1.25 per thousand cubic feet in order to reduce the Company's exposure to United States dollar based natural gas price fluctuations. The Company has also bought forward and sold forward natural gas in order to convert a portion of its 1997 natural gas purchases and sales contracts from fixed to variable price.

Currency

The Company has converted the principal and related interest payments of the Canadian dollar notes into United States dollars through currency swaps (Note 15) in order to reduce its exposure to exchange rate movements between the Canadian and United States dollars. The currency contracts outstanding at December 31, 1996 included contracts for U.S. $100 million notional principal related to estimated 1997 net currency exposure.

Interest Rates

Petro-Canada Centre utilizes revolving term credit facilities (Note 15). In order to reduce the impact of interest rate fluctuations, interest rate swap agreements have been used to convert the floating rate debt into fixed rate debt for approximately 75% of the Company's 1997 exposure at an effective semi-annual rate of 7.39% to July, 1997 and for 50% of the July, 1997 to December, 1997 exposure at 7.28%.

(tabular amounts stated in millions of Canadian dollars)

21. Derivative Instruments *(continued)*

The Company's outstanding contracts for derivative instruments and related unrealized gains (losses) were as follows:

	Quantity	Average Price	Notional Principal	Unrealized Gains (Losses)	Maturity
December 31, 1996		*(Canadian dollars)*			
Crude Oil and Products *(millions of barrels)*					
Crude oil – downstream	**0.7**	**$32.25**	**$ 23**	**$ –**	**1997**
Product sales	**0.7**	**28.25**	**20**	**3**	**1997**
Heating oil margin – sold	**2.8**	**5.00**	**14**	**–**	**1997**
			57	**3**	
Natural Gas *(millions of cubic feet)*					
Natural gas – bought	**8 882**	**1.47**	**13**	**6**	**1997**
Natural gas – sold	**12 853**	**1.75**	**22**	**(2)**	**1997**
			35	**4**	
Currency		**1.3261**	**137**	**(3)**	**1997**
Interest Rates			**88**	**(2)**	**1997**
			$ 317	**$ 2**	
December 31, 1995					
Crude Oil and Products *(millions of barrels)*					
Crude oil – upstream	8.0	$24.29	$ 194	$ (4)	1996
Crude oil – downstream	1.9	24.19	[illegible]	1	1996
	0.3	25.73	8	–	1997
Heating oil	0.8	29.67	22	–	1996
Heating oil margin	2.5	5.20	[illegible]	(1)	1996
			[illegible]	(4)	
Natural Gas *(millions of cubic feet)*					
Natural gas – bought	6 100	1.74	[illegible]	(1)	1996
Natural gas – sold	5 480	2.04	[illegible]	–	1996
			22	(1)	
Currency		[illegible]	74	–	1997
Interest Rates			140	(1)	1996
			35	–	1997
			175	(1)	
			$ 564	$ (6)	

[1] *Per barrel or per thousand cubic feet, as applicable.*

Derivative instruments involve a degree of credit risk which the Company controls through the establishment of credit policies and limits and the selection of financially sound counterparties. Market risk relating to changes in value or settlement cost of the Company's derivative instruments is essentially offset by gains or losses on the hedged positions.

22. Commitments and Contingent Liabilities

(a) The Company is a participant in the project to develop the Hibernia offshore oil field. Costs to production start-up are estimated at $5.9 billion; the Company's 20% share after Government contributions is expected to be approximately $920 million (before related investment tax credits), of which $810 million had been expended to December 31, 1996. The Company's investment in the Project will be financed, in part, by Government guaranteed loans to a maximum of $330 million; the Government's recourse to the Company is limited, subject to the Company's compliance with certain covenants, to the Hibernia Project (Note 14). The Company's share of development costs subsequent to production start-up is estimated at $350 million, which is expected to be financed by cash flow from the Project.

(b) The Company is a party to an agreement for the time charter and operation of a vessel for the transportation of crude oil to be produced from the Hibernia Project. The Company's share of annual fixed obligations is approximately $14 million. Payments are expected to commence in November, 1997 for an initial term of ten years extendable at the Company's option for an additional 15 years.

(c) The Company has leased other property and equipment under various long-term operating leases for periods up to 2014. The minimum annual rentals for non-cancellable operating leases are estimated at $74 million in 1997, $54 million in 1998, $46 million in 1999, $36 million in 2000, $29 million in 2001 and $14 million per year thereafter until 2014.

(d) The Company is involved in litigation and claims associated with normal operations. Management is of the opinion that any resulting settlements would not materially affect the financial position of the Company.

23. Comparative Figures

Certain reclassifications have been made to the 1995 and 1994 comparative figures to conform with the current year's presentation.

24. Generally Accepted Accounting Principles ("GAAP") in the United States

The Company's consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada, which differ in some respects from those applicable in the United States. The following are the significant differences in accounting principles as they pertain to the accompanying consolidated financial statements.

(a) The Company follows the deferral method of accounting for income taxes. Under United States GAAP the use of the liability method would be required.

(b) Effective January 1, 1994 the Company retroactively changed its method of accounting for post retirement benefits. Under United States GAAP the Company would have elected to have the cumulative effect of this change charged to earnings in 1994.

(c) The Company has deferred unrealized gains and losses on translation of long-term debt payable in foreign currencies for amortization over the remaining term of the debt. Under United States GAAP gains or losses on the translation of long-term debt payable in foreign currencies would be credited or charged to earnings with no deferral.

(d) United States GAAP requires that interest be capitalized as part of the cost of certain assets while they are being prepared for their intended use. The Company does not capitalize interest on all such assets.

(e) The Company has transferred amounts from contributed surplus to the accumulated deficit. Under United States GAAP these transfers would not have occurred.

(f) The Company uses the proportionate consolidation method of accounting for its investments in joint ventures. Under United States GAAP these investments would be accounted for on the equity method. This difference in accounting does not affect net earnings.

(tabular amounts stated in millions of Canadian dollars)

24. Generally Accepted Accounting Principles ("GAAP") in the United States *(continued)*

The application of United States GAAP would have the following effects on earnings as reported:

	1996	1995	1994
Net earnings as reported in the consolidated statement of earnings	**$ 247**	$ 196	$ 262
Adjustments, net of applicable income taxes			
Accounting for income taxes	**(33)**	20	12
Foreign currency translation	**7**	23	(28)
Capitalization of interest and related amortization	**17**	19	21
Other	**(3)**	(1)	1
Earnings as adjusted, before cumulative effect of accounting change	**235**	257	268
Cumulative effect of change in accounting for post retirement benefits	**–**	–	(52)
Net earnings, as adjusted	**$ 235**	$ 257	$ 216
Net earnings per share, as adjusted			
Before cumulative effect of accounting change	**$ 0.90**	$ 1.04	$ 1.09
Cumulative effect of change in accounting for post retirement benefits	**–**	–	(0.21)
After cumulative effect of accounting change	**$ 0.90**	$ 1.04	$ 0.88

The application of United States GAAP would have the following effects on the consolidated balance sheets as reported:

	As Reported	Increase (Decrease)	United States GAAP
December 31, 1996			
Current assets	**$1 475**	**$ (16)**	**$1 459**
Property, plant and equipment, net	**6 014**	**483**	**6 497**
Deferred charges and other assets	**280**	**(64)**	**216**
Current liabilities	**1 363**	**(7)**	**1 356**
Long-term debt	**1 350**	**(157)**	**1 193**
Deferred income taxes	**793**	**563**	**1 356**
Contributed surplus	**2 572**	**1 122**	**3 694**
Retained earnings (deficit)	**(88)**	**(1 118)**	**(1 206)**
December 31, 1995			
Current assets	$1 362	$ (8)	$1 354
Property, plant and equipment, net	4 829	285	5 114
Deferred charges and other assets	297	(80)	217
Current liabilities	1 108	(6)	1 102
Long-term debt	1 081	(152)	929
Deferred income taxes	621	339	960
Contributed surplus	2 572	1 122	3 694
Retained earnings (deficit)	(282)	(1 106)	(1 388)

Net Reserves of Crude Oil and Natural Gas Before Royalties

Proved reserves of crude oil and liquids increased by 29 million barrels in 1996 to 452 million barrels. Major positive changes included the purchase of 68 million barrels and the addition of nine million barrels from discoveries, extensions, revisions and improved recovery. Purchases included 40 million barrels of reserves associated with the acquisition of Amerada Hess Canada Ltd., 14 million barrels for North Sea assets and 14 million barrels from several Western Canada transactions. Offsetting the positive changes were sales of 12 million barrels and production of 36 million barrels. Sales included 10 million barrels for the Golden Lake property.

Proved reserves of natural gas increased by 520 billion cubic feet to 2 585 billion cubic feet. Major positive changes included purchases of 592 billion cubic feet and the addition of 230 billion cubic feet from discoveries, extensions, revisions and improved recovery. Purchases included 504 billion cubic feet of reserves associated with the acquisition of Amerada Hess Canada Ltd. and 88 billion cubic feet from several Western Canada transactions. Offsetting these positive changes were sales of 42 billion cubic feet and production of 260 billion cubic feet.

Based on the reserve estimates of participants, 123 million barrels of proved plus probable reserves before royalties are attributed to Petro-Canada's 20 per cent interest in Hibernia. Reserves at Hibernia, Terra Nova and additional reserves at Veslefrikk and Njord in the North Sea will be booked when appropriate during the development and production phases of these projects. A two million barrel writedown of Algerian reserves was taken in 1996.

	Crude Oil and Field Natural Gas Liquids *(millions of barrels)*				Natural Gas *(billions of cubic feet)*
	Conventional Western Provinces	Conventional International[4,5]	Synthetic Crude Oil[1]	Total	
Net Proved Developed and Undeveloped Reserves Before Royalties[2,3]					
Beginning of year 1994	186	–	203	389	2 313
Revisions of previous estimates	(15)	–	65	50	(3)
Sale of reserves in place	(17)	–	–	(17)	(208)
Purchase of reserves in place	10	–	–	10	20
Discoveries, extensions and improved recovery	5	–	–	5	136
Production	(18)	–	(8)	(26)	(197)
End of year 1994	151	–	260	411	2 061
Revisions of previous estimates	–	–	14	14	29
Sale of reserves in place	(1)	–	–	(1)	(10)
Purchase of reserves in place	4	–	–	4	30
Discoveries, extensions and improved recovery	9	15	–	24	154
Production	(20)	–	(9)	(29)	(199)
End of year 1995	143	15	265	423	2 065
Revisions of previous estimates	**3**	**(2)**	**–**	**1**	**13**
Sale of reserves in place	**(12)**	**–**	**–**	**(12)**	**(42)**
Purchase of reserves in place	**54**	**14**	**–**	**68**	**592**
Discoveries, extensions and improved recovery	**8**	**–**	**–**	**8**	**217**
Production	**(23)**	**(4)**	**(9)**	**(36)**	**(260)**
End of year 1996	**173**	**23**	**256**	**452**	**2 585**

[1] *Reserves of synthetic crude oil are based on a gross production rate at Syncrude of approximately 200 000 barrels per day to the year 2025.*

[2] *Net proved developed and undeveloped reserves before royalties are Petro-Canada's working interest in reserves before the deduction of Crown or other royalties. Such royalties are subject to change by legislation or regulation and can also vary depending on production rates, selling prices and timing of initial production. No reserve quantities have been included to reflect royalty interests Petro-Canada has in various properties.*

[3] *Proved reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those proved reserves that are expected to be recovered from existing wells or facilities. Proved undeveloped reserves are proved reserves which are not recoverable from existing wells or facilities, but which are expected to be recovered through additional development drilling or through the upgrading of existing or additional new facilities.*

[4] *International reserves comprise 12 million barrels of oil in Algeria and 11 million barrels of oil in Norway.*

[5] *After deduction of a 20 per cent royalty, Petro-Canada receives crude oil to recover costs incurred on behalf of Petro-Canada and SONATRACH, the Algerian state oil company. The remaining production is shared between Petro-Canada and SONATRACH, varying with the level of production. The total share accruing to Petro-Canada cannot exceed 49 per cent of the gross production volumes.*

Petro-Canada

Supplemental Information

Oil and Gas Landholdings (Gross/Net)[1]

(millions of acres)	Developed[2]				Undeveloped[2]				Total			
	1996		1995		**1996**		1995		**1996**		1995	
	Gross[1]	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Canada												
Mainland Canada	**3.2**	**1.5**	2.1	0.9	**3.1**	**1.8**	1.5	1.0	**6.3**	**3.3**	3.6	1.9
Oil Sands	**–**	**–**	0.1	–	**0.7**	**0.2**	0.7	0.2	**0.7**	**0.2**	0.8	0.2
East Coast Offshore[5]	**–**	**–**	–	–	**0.4**	**0.1**	0.7	0.2	**0.4**	**0.1**	0.7	0.2
Other Frontier[3]	**–**	**–**	–	–	**7.2**	**6.1**	7.2	6.1	**7.2**	**6.1**	7.2	6.1
International[4]	**–**	**–**	–	–	**2.1**	**2.0**	2.0	2.0	**2.1**	**2.0**	2.0	2.0
Petro-Canada Total	**3.2**	**1.5**	2.2	0.9	**13.5**	**10.2**	12.1	9.5	**16.7**	**11.7**	14.3	10.4

[1] *Gross acres includes the interests of others, while net acres excludes the interests of others.*
[2] *Developed lands are areas capable of production. Undeveloped lands are areas with rights to explore.*
[3] *Exploration is not currently permitted in the Eastern Arctic or off the west coast of Canada.*
[4] *International landholdings are in Algeria and Norway.*
[5] *East Coast Offshore landholdings do not include parcels acquired at Newfoundland September 30, 1996 land sale because licenses were not issued until January 9, 1997. These licenses cover acreage of 0.9 million gross acres, 0.2 million net to Petro-Canada.*

Principal Reserve and Production Locations

Conventional Crude Oil

Fields	Proved Reserves Before Royalties at December 31, 1996 *(millions of barrels)*	Per Cent of Total Proved Reserves	Average 1996 Daily Production Before Royalties *(thousands of barrels)*	Per Cent of Total 1996 Oil Production
Valhalla, Alberta	28.3	22	11.2	23
Pembina, Alberta	20.6	16	2.8	6
Ferrier, Alberta	19.0	14	2.1	4
Bellshill Lake, Alberta	8.2	6	5.8	12
Boundary Lake, British Columbia	7.4	6	1.8	4
Willesden Green, Alberta	5.5	4	0.9	2
Sturgeon Lake, Alberta	5.3	4	2.3	5
Cactus Lake, Saskatchewan	4.3	3	1.4	3
Shekilie, Alberta	4.0	3	0.9	2
Wapiti, Alberta	2.9	2	1.1	2
Other	25.8	20	18.1	37
Total	131.3	100	48.4	100

The reserves and production data in these tables do not include natural gas liquids.

Natural Gas

Fields	Proved Reserves Before Royalties at December 31, 1996 *(billions of cubic feet)*	Per Cent of Total Proved Reserves	Average 1996 Daily Production Before Royalties *(millions of cubic feet)*	Per Cent of Total 1996 Gas Production
Hanlan, Alberta	315	12	77	11
Jedney, Beg and Bubbles, British Columbia	242	9	29	4
Ricinus/Bearberry, Alberta	218	8	91	13
Wildcat Hills, Alberta	216	8	38	5
Fort St. John, British Columbia	164	6	39	5
Gilby, Alberta	126	5	45	6
Brazeau, Alberta	108	4	29	4
Medicine Hat, Alberta	106	4	28	4
Laprise, British Columbia	97	4	29	4
Yoyo, British Columbia	93	4	39	6
Other	900	36	268	38
Total	2 585	100	712	100

The reserves and production data in these tables do not include natural gas liquids.

Refining by Locations

Petro-Canada owns and operates three refineries, in Edmonton, Montreal and Oakville, Ontario. The refineries produce a full slate of refined petroleum products, including gasolines, diesel fuels, heating oils, aviation fuels, asphalts and petrochemical feedstocks. Refining units at Port Moody, British Columbia, and crude oil and fuel processing units at Mississauga, Ontario, were permanently shut down in 1993, reducing total capacity by 12 500 cubic metres per day.

The Company also owns and operates a lubricants plant in Mississauga, Ontario, which produces base oils, motor oils and specialty lubricants and greases, using feedstock from the Oakville and Montreal refineries.

(thousands of cubic metres)	Average Volumes of Crude Oil Processed per Calendar Day[1] **1996**	1995	1994	1993	Daily Rated Capacity as at December 31,[2] **1996**
Edmonton, Alberta	**18.5**	17.5	17.3	15.5	**18.4**
Montreal, Quebec	**13.9**	13.0	12.2	11.2	**14.2**
Oakville, Ontario	**12.6**	11.5	12.6	13.4	**12.8**
Port Moody, British Columbia	**–**	–	–	1.3	**–**
Total	**45.0**	42.0	42.1	41.4	**45.4**

[1] *For refineries which closed part way through the year, average daily volumes are calculated as if the refinery had operated all year.*
[2] *Daily rated capacity is based on calendar days and definite specifications as to types of crude oil, the products to be obtained and the refinery process required. Variations in these factors may result in actual capacity being higher or lower than rated capacities.*

Generally Accepted Accounting Principles in the United States

The Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada, which differ in some respects from those applicable in the United States. The significant differences in accounting principles as they pertain to the accompanying consolidated financial statements are described in Note 24 to the Consolidated Financial Statements.

A Statistical Supplement to this annual report, which is available on request (see inside back cover), also includes disclosures in accordance with the United States Financial Accounting Standards Board Statement No. 69 ("Disclosures About Oil and Gas Producing Activities").

Petro-Canada

Five Year Financial and Operating Summary[1]

(stated in millions of dollars, unless otherwise indicated)

	1996	1995	1994	1993	1992
Consolidated					
Revenue	**$5 607**	$4 820	$4 758	$4 629	$4 747
Expenses	**5 111**	4 450	4 322	4 295	4 573
Unusual items	**–**	–	51	–	(121)
Provision for income taxes	**249**	174	225	174	48
Net earnings	**$ 247**	$ 196	$ 262	$ 160	$ 5
Cash flow	**863**	705	701	631	516
Total assets	**7 769**	6 488	6 076	5 696	5 514
Average capital employed	**6 071**	5 116	4 760	4 497	4 793
Operating return on capital employed					
(in 1995 before organizational restructuring charge) (per cent)	**5.1**	5.7	5.8	4.8	3.1
Return on capital employed *(per cent)*	**5.1**	4.9	6.7	4.8	1.5
Cash flow return on capital employed *(per cent)*	**15.3**	14.8	15.9	15.3	12.2
Debt	**1 709**	1 381	1 259	1 205	1 108
Debt to debt plus equity *(per cent)*	**31.6**	30.9	29.9	30.7	29.9
Debt to cash flow *(times)*	**2.0**	2.0	1.8	1.9	2.1
Expenditures on property, plant and equipment					
and exploration	**959**	853	702	609	457
Employees *(number)*					
Petro-Canada	**4 664**	4 567	4 871	5 029	5 329
Subsidiaries	**1 015**	1 079	1 338	2 290	2 931
Total	**5 679**	5 646	6 209	7 319	8 260
Shareholders' Data					
Weighted average number of common and					
variable voting shares outstanding *(millions)*	**262.3**	246.7	246.7	246.5	217.1
Shares outstanding at year end *(millions)*	**270.7**	246.7	246.7	246.5	246.5
Publicly held shares at year end *(millions)*	**221.3**	197.3	73.4	73.3	73.2
Share prices *(dollars)*[2]					
– at year end	**19.35**	15¾	11⅜	12	8⅛
– range during the year	**15.63-20.60**	10⅞-15⅞	10¾-14⅞	7¼-14	7⅞-10⅞
Shares traded *(millions)*[3]	**112.7**	65.4	45.6	83.7	27.0
Book value per share *(dollars)*	**13.64**	12.53	11.94	11.04	10.52
Upstream Sector					
Earnings from operations	**$ 192**	$ 153	$ 153	$ 114	$ 119
Gains on asset sales	**4**	6	19	1	24
Unusual item	**–**	–	21	–	–
Net earnings	**$ 196**	$ 159	$ 193	$ 115	$ 143
Cash flow	**655**	477	448	376	391
Expenditures on property, plant and equipment					
and exploration					
Exploration and development	**$ 380**	$ 240	$ 209	$ 183	$ 106
Hibernia development	**142**	239	234	165	93
Other	**127**	108	84	66	146
	$ 649	$ 587	$ 527	$ 414	$ 345

Petro-Canada

Five Year Financial and Operating Summary[1]

(stated in millions of dollars, unless otherwise indicated)

	1996	1995	1994	1993	1992
Upstream Sector *(continued)*					
Daily Production *(net, before royalties)*					
Crude oil and field liquids *(thousands of barrels)*	**97.3**	79.4	73.3	79.8	79.8
Natural gas *(excluding injectants, millions of cubic feet)*	**712**	546	540	562	507
Ethane and natural gas liquids production from straddle plants *(thousands of barrels)*	**34.9**	37.5	36.8	40.8	36.4
Average sales prices					
Crude oil and field liquids *(dollars per barrel)*	**27.20**	21.69	19.60	18.83	19.65
Natural gas *(dollars per thousand cubic feet)*[4]	**1.61**	1.32	1.92	1.74	1.42
Proved Reserves *(net, before royalties)*					
Crude oil and field liquids *(millions of barrels)*	**452**	423	411	389	417
Natural gas *(trillions of cubic feet)*	**2.6**	2.1	2.1	2.3	2.4
Oil and Gas Landholdings (gross/net) *(millions of acres)*	**16.7/11.7**	14.3/10.4	18.4/14.5	20.3/15.3	29.1/17.8
Wells Drilled (gross/net)					
Oil	**118/82**	112/69	129/90	165/100	49/25
Natural gas	**141/73**	161/98	160/89	196/87	41/6
Oil sands	**–**	–	–	2/1	–
Dry	**39/17**	29/13	34/14	24/10	15/4
Total	**298/172**	302/180	323/193	387/198	105/35
Propane					
Propane sales *(millions of litres)*	**1 180**	1 126	1 148	1 213	1 215
Downstream Sector					
Earnings from operations	**$ 130**	$ 160	$ 136	$ 112	$ 27
(Losses) gains on asset sales	**(3)**	1	2	2	1
Net earnings	**$ 127**	$ 161	$ 138	$ 114	$ 28
Cash flow	**243**	305	295	291	201
Expenditures on property, plant and equipment	**282**	254	169	190	110
Petroleum product sales *(thousands of cubic metres per day)*	**43.7**	41.6	41.5	41.3	43.0
Retail outlets at year end	**1 765**	1 871	2 029	2 220	2 630
Refinery crude capacity at year end *(thousands of cubic metres per day)*	**45.4**	45.4	45.1	45.1	57.6
Average refinery utilization (*per cent*)[5]	**99**	93	93	79	72

[1] *Certain reclassifications have been made to the figures previously reported to reflect subsequent changes in reporting presentation.*

[2] *Share prices are for trading on The Toronto Stock Exchange.*

[3] *Total shares traded on the Toronto, Montreal, New York, Vancouver and Alberta stock exchanges.*

[4] *Average gas price is before deduction of British Columbia gathering and processing charges.*

[5] *Average refinery utilization takes into account, where applicable, changes in refinery crude capacity that occurred during the year.*

Petro-Canada

Quarterly Financial and Stock Trading Information

(unaudited, stated in millions of dollars unless otherwise indicated)

	1996				1995			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue								
Operating	$1 267	$1 284	$1 334	$1 629	$1 150	$1 177	$1 181	$1 231
Investment and other income	13	36	10	34	19	21	14	27
	1 280	1 320	1 344	1 663	1 169	1 198	1 195	1 258
Expenses								
Crude oil and product purchases	671	679	747	891	586	615	574	630
Producing, refining and marketing	296	315	321	325	305	295	290	308
General and administrative	50	46	43	48	137	54	53	64
Exploration	14	14	12	20	13	7	8	15
Depreciation, depletion and amortization	87	113	118	122	85	85	83	85
Taxes other than income taxes	19	18	18	15	19	17	16	16
Interest on long-term debt	21	21	27	32	21	20	20	20
Other interest	–	6	1	1	1	1	1	6
	1 158	1 212	1 287	1 454	1 167	1 094	1 045	1 144
Earnings Before Income Taxes	122	108	57	209	2	104	150	114
Provision for Income Taxes	52	56	33	108	10	44	71	49
Net Earnings (Loss)	$ 70	$ 52	$ 24	$ 101	$ (8)	$ 60	$ 79	$ 65
Cash Flow	$ 207	$ 204	$ 182	$ 270	$ 130	$ 178	$ 210	$ 187
Segmented Earnings								
Earnings from operations								
Upstream	$ 52	$ 24	$ 22	$ 94	$ 40	$ 37	$ 35	$ 41
Downstream	38	39	23	30	22	35	62	41
Shared Services	(20)	(16)	(19)	(20)	(20)	(16)	(17)	(19)
Organizational Restructuring	–	–	–	–	(52)	–	–	–
	70	47	26	104	(10)	56	80	63
Gains (losses) on asset sales	–	5	(2)	(3)	2	4	(1)	2
Net earnings (loss)	$ 70	$ 52	$ 24	$ 101	$ (8)	$ 60	$ 79	$ 65
Share Information *(dollars per common share)*								
Net earnings (loss)	0.28	0.20	0.08	0.38	(0.03)	0.24	0.32	0.26
Cash flow	0.84	0.78	0.67	1.00	0.53	0.72	0.85	0.76
Dividends paid	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Share price[1]								
– High	17¼	18.40	18.70	20.60	12 [illegible]	13 [illegible]	15	15 [illegible]
– Low	15⅝	16.65	16.85	16.90	10 [illegible]	11 [illegible]	12 [illegible]	13⅞
Close (end of period)	16⅞	16.95	17.40	19.35	12	13	14 [illegible]	15 [illegible]
Shares traded *(millions)*[2]	18.4	24.0	22.4	47.9	7.6	16.0	23.1	18.7
Instalment receipts[1]								
– High	9⅜	10.15	13.30	16.30			7 [illegible]	7⅞
– Low	7¾	8.45	8.50	12.60			6 [illegible]	5⅞
– Close (end of period)	8¾	8.70	13.15	15.05			6 [illegible]	7⅛
Receipts traded *(millions)*[2]	57.3	42.9	29.4	42.5			57.9	56.9

[1] *Share and receipt prices are for trading on The Toronto Stock Exchange.*

[2] *Total traded on the Toronto, Montreal, New York, Vancouver and Alberta stock exchanges.*

Information for Shareholders and Investors

Petro-Canada's Outstanding Shares

At December 31, 1996, Petro-Canada's public float was 221.3 million common and variable voting shares, represented by 123.9 million instalment receipts and 97.4 million shares. In September 1995, the Government of Canada sold 123.9 million common shares on an instalment basis, for a total of $14.625 each. A final instalment of $4.25 is payable on or before March 24, 1997. A receipt holder receives full dividends and voting rights while paying for the shares over a period of time.

Transfer Agent and Registrar

In Canada, Petro-Canada's transfer agent and registrar is The R-M Trust Company. Share certificates may be transferred at R-M Trust's corporate offices in Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver. Questions relating to share certificates, dividends and estate settlements should be directed to R-M Trust's corporate offices in Calgary:

The R-M Trust Company
600 The Dome Tower
333 - 7th Avenue S.W.
Calgary, Alberta, Canada T2P 2Z1
Telephone toll free: (800) 387-0825
Email: enquiries@rmtrust.ca
Website at http://www.rmtrust.ca

In the United States, Petro-Canada's transfer agent and registrar is the ChaseMellon Company, L.L.C., which can be contacted at:

ChaseMellon Shareholder Services, L.L.C.
85 Challenger Road
Overpeck Center
Ridgefield Park, NJ 07660
Telephone toll free: (800) 387-0825

Annual Meeting

The annual meeting of shareholders will be held at 11:00 a.m. local time on Tuesday, April 29, 1997 at:

Crystal Ballroom, Palliser Hotel
133 - 9th Avenue S.W.
Calgary, Alberta

Stock Exchange Listings and Symbols

Toronto, Montreal, New York, Vancouver, Alberta and Winnipeg
Canadian exchanges: PCA
New York: PCZ

Dividends

Petro-Canada's Board of Directors has adopted a policy of paying quarterly dividends of $0.05 ($0.20 per annum) per common share. The Board reviews the dividend policy in light of the Company's financial position, its financing requirements for growth and other factors.

Dividends are normally paid on or about the first working day of the months of January, April, July and October. The record dates are normally set approximately four weeks ahead of the dividend payment date. Dividends can be deposited directly to shareholders' bank accounts. If this service is desired, please contact the transfer agent and registrar.

Investor Relations and Shareholder Communications

Petro-Canada's Investor Relations staff may be contacted by writing to or calling:

Petro-Canada Investor Relations
P.O. Box 2844
Calgary, Alberta, Canada T2P 3E3
Telephone: (403) 296-4040
Fax: (403) 296-3061
Email: investor@petro-canada.ca
Visit our website at
http://www.petro-canada.ca

Information for Investors Outside of Canada

Dividends and interest payments made to residents in countries with which Canada has a bilateral tax treaty are subject to Canadian non-resident withholding tax of 15 per cent. The majority of countries are in this category. For U.S. residents, these rates were reduced in 1996 to 10 per cent on dividends and six per cent on interest. There is no Canadian tax on gains from the sale of shares or debt instruments owned by non-residents not carrying on business in Canada. Estate taxes or succession duties are not levied by any level of government in Canada. (This summary is not intended as tax advice; shareholders may wish to consult a tax advisor with respect to particular circumstances).

Duplicate Reports

While we try to avoid duplicate mailings of annual reports and other shareholder materials, shareholders with more than one unregistered account may receive duplicates. Registered shareholders with more than one account may contact the transfer agent and registrar to eliminate duplicate mailings.

Board of Directors and Senior Officers

Norm McIntyre
Wesley Twiss
Jim Pantelidis
Jim Stanford

Board of Directors

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Claude Fontaine, Q.C.[1]
[illegible]
Ogilvy Renault
Barristers and Solicitors
[illegible]

[illegible] MacNeill, [illegible]
[illegible]
[illegible] Executive Officer
IPL Energy Inc.
Calgary, Alberta

[illegible] Maier, P.Eng., F.C.A.E.
[illegible]
[illegible] PipeLines Limited
[illegible]

[illegible], C.M., F.C.A
[illegible], Board of Directors
Canadian Broadcasting
[illegible]
[illegible]

[illegible]
President [illegible]
[illegible] Executive Officer
[illegible] Investments Ltd.
[illegible]

[1] [illegible]

Senior Officers

Thomas E. Kierans
Chairman of the Board

James M. Stanford
President and
[illegible]

[illegible]
[illegible]

James Pantelidis
Executive Vice-President

Wesley R. Twiss
Executive Vice-President

Conversion Factors

To conform with common usage, imperial units of measurement are used in this report to describe exploration and production, while metric units are used for refining and marketing. Dollars are Canadian unless otherwise stated.

1 cubic metre (liquids)	= 6.29 barrels
1 cubic metre (natural gas)	= 35.31 cubic feet
1 litre	= 0.22 imperial gallon
1 hectare	= 2.47 acres

Additional Publications

The following publications are available on request from Investor Relations or Communication Services:

- Management's Discussion and Analysis of financial condition and results of operations, filed with Canadian securities regulators
- Statistical Supplement to the Annual Report, containing nine-year financial information and more detailed operating data
- Annual Information Form, filed with Canadian securities regulators
- Form 40-F, filed with the U.S. Securities and Exchange Commission
- Interim Reports, which are published about five weeks after the end of the first, second and third quarters
- Petro-Canada's Code of Business Conduct

Petro-Canada

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Glossary of Financial Terms and Ratios

Terms

BARREL OF OIL EQUIVALENT: Natural gas production (excluding injectants) is converted using 10 000 cubic feet of gas for one barrel of oil.

CAPITAL EMPLOYED: Total assets excluding the translation adjustment on long-term debt, less current liabilities, excluding current portion of long-term debt and notes payable – Hibernia.

CASH FLOW: Cash flow from operations before changes in non-cash working capital items.

DEBT: Notes payable – Hibernia and long-term debt including current portion.

EARNINGS FROM OPERATIONS: Earnings before gains (losses) on asset sales and unusual items, net of income taxes.

OPERATING EXPENSES: Producing, refining and marketing expenses.

OVERHEAD EXPENSES: General and administrative expenses.

Ratios

CASH FLOW RETURN ON CAPITAL EMPLOYED: Cash flow plus after-tax interest expense divided by average capital employed. Measures cash flow generated relative to the asset base.

CURRENT RATIO: Current assets divided by current liabilities. Reflects the Company's short-term liquidity and its ability to pay short-term trade debts.

DEBT TO CASH FLOW: Debt divided by cash flow. Indicates the Company's ability to discharge its outstanding debt.

DEBT TO DEBT PLUS EQUITY: Debt divided by debt plus equity. Indicates the relative amount of debt in the Company's capital structure. Measures financial strength.

OPERATING RETURN ON CAPITAL EMPLOYED: Earnings from operations plus after-tax interest expense divided by average capital employed. Measures operating earnings relative to the asset base.

RETURN ON CAPITAL EMPLOYED: Net earnings plus after-tax interest expense divided by average capital employed. Measures net earnings relative to the asset base.

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